



## Finance

Finances and Your Emotional Health

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# 1. ESTABLISHING YOUR SPENDING PLAN

Welcome to the “Finances and Your Emotional Health” library of resources. Here you will learn methods to improve your financial stability. And, you will learn how managing your finances effectively supports your overall emotional wellbeing.



## 1.1 Introduction

Financial problems create additional stress in the lives of service members, veterans, and their families. Disagreement about money management is one of the main conflicts for married couples, and one of the main causes of divorce<sup>1,2</sup>. The most common cause of loss of security clearances in all pay grades is from significant debt or other financial hardship<sup>3</sup>.

## 1.2 Why Have a Spending Plan

A spending plan is a simple tool that helps create a roadmap for achieving prosperity. It tracks how money is being spent, and provides a plan for future purchases and spending habits.

Service Members who run out of money before payday may need to borrow from family or friends or even payday lenders, just to survive. The end result of borrowing constantly can be a steep financial hole.

A spending plan can help you prepare for tough financial times. Although it's beneficial to create your spending plan as soon as possible after you start earning a regular income, it's never too late to begin. Even if you've been earning regular wages for many years, a spending plan is just as important to insure financial stability and avoid potential credit management problems.

Section 2 of this library lists military organizations that can assist you in creating your own individualized spending plan.

## 1.3 SMART Plan

While financial difficulties can be avoided by sticking to a spending plan, it's also important to commit your financial goals to writing. Writing things down provides you with all the information you need to objectively plan for and achieve prosperity. It's also important to write down both your short-term and long-term financial goals, such as buying a new car next year (short-term), or being able to retire in comfort (long-term). A well-written goal is SMART<sup>4</sup>.

For example, if your goal is “to be rich”, you can use the SMART technique to help achieve your goal:

- Specific: “I want to have at least half a million dollars saved by the time I'm 60.”

### SMART means:

- Specific
- Measureable
- Action-oriented (or Achievable)
- Realistic
- Timely (with start and stop dates)

<sup>1</sup> <http://www.divorce.com/article/top-10-reasons-marriages-fail>

<sup>2</sup> <http://www.divorceguide.com/free-divorce-advice/marriage-and-separation-advice/the-10-most-common-causes-of-divorce.html>

<sup>3</sup> <http://www.militarymoney.com/DebtHelp/Credit/tabid/74/itemId/2651/Default.aspx>

<sup>4</sup> Norem, Arnold. Developing Your Spending Plan. US Navy Personal Finance Training program.

- **Measureable:** Decide on what percentage of your income is required to meet your goal.
- **Action-oriented/Achievable:** “The action I will take is to save 10% of my income throughout my working career.”
- **Realistic:** “Saving 10% is realistic and manageable.”
- **Timely:** “If I start saving during the early part of my career, I can achieve my goal by the end of my career.”

If at age 20 you begin putting \$250 per month into an investment account that yields 6%,<sup>5</sup> by the time you're 60 you will have invested \$120,000, but your investment account will be worth *approximately \$500,360*.

If \$250 per month seems a bit steep, start with a lesser amount and increase your contribution as your income rises. For example, if you stay in the military for twenty years and get promotions on schedule, and you set aside 10% of your income over the course of those twenty years, your monthly contribution will average out to about \$300 per month. If you have put those contributions into an investment account earning 6%, you will have contributed \$72,000, but the actual savings with interest will be over \$139,000. Many go on past retirement to another career. If you maintain a pattern of saving \$300 per month for another ten years, you will have invested \$108,000, but your investment will have grown to approximately \$303,000. Ten more years of savings at \$300 per month will result in an additional contribution of \$144,000 into your account. Cumulatively, twenty years after retiring from the military, your account would be worth over \$600,000! Of course, as you progress upward during your career, you may be able to invest significantly more than the average.



## 1.4 Elements of Successful Spending Plans

Saving and investing make up only one part of the plan. The four essential elements needed to create a spending plan are:

1. Income
2. Savings
3. Expenses
4. Indebtedness

In short, a spending plan allows you to make plans to maximize 1 & 2 (income and savings), and to minimize 3 & 4 (expenses and indebtedness), thus creating wealth and achieving your financial goals.

## 1.5 Net Worth

Another important part of financial planning is computing your net worth. Net worth is your assets minus your liabilities; in other words, what you own minus what you owe. This is a measure of your wealth; if you're managing your finances effectively, you should see this number go up every year.

Ideally, you should have a positive net worth, but for many people just starting out it's common, and normal, for that number to be negative. Since your net worth is a measure of your wealth, it's a number that should be tracked routinely. You can use your net worth like a measuring stick to tell you how you're doing: are you building wealth or are you building debt? Using sound financial principles in the way you manage your money will insure that with each passing year the "bottom line" is increasing, and you are indeed moving in the direction of building wealth.

<sup>5</sup> TSP G Fund averages 5.93% since inception. (<https://www.tsp.gov/PDF/formspubs/GFund.pdf>).  
TSP C Fund averages 9.55% since inception. (<https://www.tsp.gov/PDF/formspubs/CFund.pdf>).

## 2. FAMILY FINANCES DURING DEPLOYMENT

### 2.1 Introduction

Service members and their spouses should review the family's finances and ensure that any outstanding financial matters are resolved before a deployment. Things work best when each spouse has a good understanding of roles and responsibilities concerning allocation of pay, payment of bills, and a household budget.

If you and your spouse require assistance in financial planning, each installation has a Military Family Center personal financial management professional, and in most states a Personal Financial Counselor is part of the Joint Family Support Assistance Program (JFSAP). The JFSAP team can be contacted through the National Guard Joint Forces Headquarters (JFHQ). The Navy also has a Command Financial Specialist. All of these resources can help you look at your finances together so that both of you can come up with the smartest plan to manage the family's finances during a deployment. These resources are discussed in greater detail below.

Military One Source ([www.militaryonesource.com](http://www.militaryonesource.com)) is an excellent online resource. There you will find a wide variety of helpful information, including material on money and debt management.

Because each individual comes into a relationship with a different family learning history regarding finances, it's critical that to-be-married couples discuss finances and a spending plan before getting married. The spending plan should be sure to set aside enough funds each pay period to cover the basics, such as rent, food and utilities. Remember: disagreements over money issues are a top cause of divorce.

### 2.2 Managing Family Finances

Service members deployed for extended periods may find handling their finances from a distance a particular challenge. Whether you're single or part of a couple, having a well-defined spending plan is an important ingredient in managing financial responsibilities successfully.

Good financial planning principles include determining both your financial status and your financial goals. A completed spending plan will serve as a guide to achieving your financial goals. Whether planning for a six-month deployment, a six-year saving plan, or retirement at year sixty, the principles are the same: plan for the best-case scenario, prepare for the worst case, and track your progress according to your plan.

If you're married or engaged, the spending plan should be developed jointly. When the spending plan is completed, review the numbers and be sure that the plan is mutually satisfactory. If you have a monthly surplus, now is the time to think about what can be done with the money. If you have a deficit, visit your Personal Financial Manager at your installation's Military Family Center or call Military One Source and work out a way to improve your cash flow.

Plan as realistically as possible for expenses that you will have on deployment. Married personnel should establish realistic financial **plans** for both partners. Interestingly, many report that one of the advantages of an

if you're  
**married or engaged**  
the *spending plan* should  
be developed **jointly**



extended deployment is the opportunity to save money. However, because everyone needs a break, allowances should be made for both the family and the deployed service member to engage in some recreation.

If the non-deployed spouse has never managed the family's finances, he or she should work with the agreed-upon system a month or two **before** the deployment. This will allow time to troubleshoot problems while the family is intact. You can visit with your installation's financial counselor to make sure you're on the right track.

Remember: the work that you put into making a sound financial plan can continue to benefit you if you maintain your good spending and saving habits.

## 2.2.1 Plan for the Unexpected: Emergency Fund

In order to establish an emergency fund for unexpected expenses, have at least one month's pay saved.

Remember to allow or plan for expenses that don't occur each month such as insurance premiums, car maintenance, home maintenance, holiday gifts, trips overseas, and tax payments.

### 2.2.2 Pay Changes During Deployment

While you're deployed, you may be eligible for various kinds of deployment-related special pay, or there may be situations in which your pay may increase. These may include:

- Family Separation Allowance
- Hostile Fire/Imminent Danger Pay
- Hardship Duty Pay
- Combat Zone Tax Exclusion
- Pay increases with promotions
- Re-enlistment bonuses
- Flight Pay, Diving Pay, Sea Pay and Submarine Duty Pay

Deployment-related special pays typically stop at the end of deployment. For that reason, your spending plan should take into consideration only your usual pay, and not your special pay. That will keep you from becoming dependent on special pay, and the discontinuation of special pay will not put a strain on your finances when you return from deployment.

Special pay is usually significant for most deployed service members. If you have debt, it is recommended that you use your special pay to pay down those bills. If you don't have debt, put the extra funds into a savings account that will benefit both of you in the long run. Section 3 of this library [Deployment as an Opportunity to Save](#) will discuss your savings options in greater detail.

### 2.2.3 Special Pay: A Great Opportunity to Save

Deployment-related special pay can present an excellent opportunity to save money. Setting up a bank allotment is generally a good way to go, either to pay off debt or to "pay yourself first" through saving. You can start your saving by allotment before deployment. This will make it a habit and help you to build a reserve.



## 2.3 Avoiding the Pitfalls

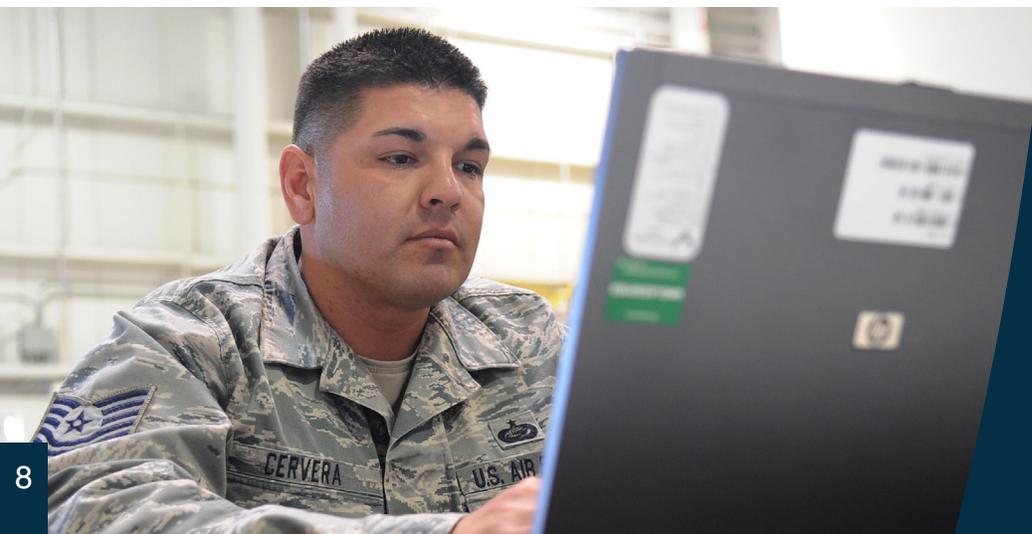
Couples should avoid the following:

- **Deployed Spouse keeping the paycheck and/or checkbook** - One inadvisable method of handling finances on deployment is for the deploying spouse to keep the paycheck and/or the checkbook and to send money to the family back home. Mail service on deployment is frequently delayed and often unreliable. There is also the chance of loss, which would further delay money to the family.
- **Don't split check pads** - Another ill-advised method is when each spouse carries their own checkbook for the same account. This is called splitting check pads. Splitting check pads between account holders in a joint account can lead to confusion and, eventually, one or more bounced checks.
- **Avoid using money orders** - Money orders are time consuming and require additional record keeping. If you feel that you absolutely must use money orders, make sure to keep current and accurate records. Write down the order numbers, dates, amount, who it is going to, and date mailed. Keep all receipts.

Make sure both parties understand and feel comfortable with the system that is agreed upon. It's best to find a system that works both during and after deployment. Getting a system in place will reduce some of the stress in preparing for the next deployment, particularly if it is a sudden one.

If there are any pay problems during the deployment, it may require dealing with your financial institution, with DFAS, or both. Your financial institution will deal with anyone whose name is on your joint account. In addition, DFAS will not give any pay information to a spouse (or anyone else) unless they first receive a faxed copy of a power of attorney authorizing them to do so.

If there are **any pay problems** during the **deployment**, it may require **dealing** with your **financial institution**, with **DFAS**, or both.



## 2.4 Managing Financial Tools

There are several tools to help couples manage their finances during a deployment, as follows:

- **Allotments** - An allotment to a spouse or other family member's checking account allows service members to send a portion of the paycheck home, with the service member receiving the remainder in his or her account. With the advent of online and telephone banking, managing your money has gotten easier, but there are still times when the military mission keeps you from getting easy access to a computer or telephone. Allotments can be effective tools for managing your cash flow. Allotments can be used to send money to family members, to pay bills, and to save. This is particularly useful if a couple has different accounts at different financial institutions. One advantage of using an allotment is that the person at home, who will normally be paying most of the bills, is guaranteed to receive the same amount every month. This is useful for planning purposes. Any fluctuations in pay will occur in the deploying member's account. It's important to set up an allotment at least 60 days prior to deployment to allow your spending plan to adjust to the new financial situation. Once it is in place, do not stop the allotment. Remember that operational commitments could delay your homecoming and once the allotment is in place it will make future deployments easier.
- **Online Banking** – If you have regular access to a computer, online banking may be an option for managing your finances while deployed. If you haven't done so already, sign up for 24-hour secure online account access before deploying. This is the easiest way to transfer money between your accounts and balance your checkbook from anywhere. This can be especially important when two people are working from the same accounts.
- **Online Bill Pay** - Enroll in your financial institution's online bill paying service. This enables you to pay bills on line. Many institutions offer online bill paying at no cost. Many banking institutions offer automated payment options. For instance, if your car loan needs to be paid on the 10th of each month, you can establish a regular payment plan directly out of one of your accounts. This method may not be suitable for payments that vary from month to month. Make sure before you deploy that you arrange to have enough money in your account to cover the debit each month. Military-friendly banking institutions may offer special incentives while a service member is deployed on a military campaign, such as free bill paying. Check with your bank to learn more.

## 2.5 Credit Management During Deployment

As part of your planning for deployment, consider the following strategies to manage your credit:

- **Pay balances in full each month** – Set aside funds to pay your credit card balances in full each month. Remember, paying more than the minimum payment (but less than the full balance) one month does not mean no payment is due the following month.
- **Avoid impulse spending** – Easy access to credit increases chances for impulse spending. To prevent overspending, shop with a list and an upper price limit, and stick to them. Other strategies are contained within this library in the chapter titled [Impulse Buying](#).
- **Keep a running total of credit card balances** – Keep a running tally of credit card balances. Remember bills may be delayed in the mail. Make sure you don't run up a bigger balance than you can afford to repay or that exceeds your credit limit. Also remember that "not getting a bill" is not a reason not to make a payment you know is due.
- **Keep all credit card receipts** – Keep copies of credit card transactions in order to minimize credit card fraud. Keep a close eye on your card; use all the normal precautions and make sure that you or your spouse looks over your statements to make sure there are no unauthorized purchases.

## 2.6 Unwise Uses of Credit

Unwise uses of credit may revolve around behavior; poor or no planning, or emotional spending.

Unwise uses include: (<http://www.cnic.navy.mil/whitingfield/FleetAndFamilyReadiness/SupportServices/CounselingAndAssistance/PersonalFinanceManagement/CreditManagement/index.htm>)

### Impulse Buying

Both the deployed service member **and** the at-home spouse can be subject to impulse buying. Easy access to credit often leads to a “buy now, pay later” mentality. Impulse buying can occur when we are bored, nervous, sad, angry, or happy. During these times, consumers will often charge items they would never buy if they had to pay in cash. In addition, consumers buying an item on impulse tend to pay about 1/3 more than they would if they first compared prices at other locations where the same item might be on sale.

### Spending for Status

Many people feel they need to spend to impress others. Advertising appeals to these emotions. Ads in the media for credit cards often portray the person using the card as having power or status. The message they are sending is that if you use their card, you will be able to do great things, have more fun, attract others, and be more successful. However, with all those things come months of payments and interest.

### Retaliatory Spending

In families that do not have a clear spending plan in place that partners agree on, each partner may have a tendency to spend on themselves first. After all, they work hard so why shouldn't they treat themselves to something nice occasionally? This can spin off into retaliatory spending: each partner buying (charging) more for themselves in order to “even the score” with the other. It's a good idea to talk with your spouse about the potential for this problem before a deployment.

### Spending to Feel Better

In extreme cases this can become like an addiction. Like other addictive behaviors, the good feelings are only temporary; the debt “hangover” can last a long time. Individuals should always decide before charging any purchase if they are buying an item because they really need it or because they are under stress and want to feel better. People who spend to feel good or to get a “fix” sometimes won't even open their parcels or use the items because it isn't about the item purchased, it is about the feeling they get from the transaction. Many people experience the euphoric feeling to a lesser extent but the practice of spending to feel better can still cause overspending.

### Purchasing Consumables

Credit becomes more dangerous when used to purchase consumables like food, clothing, entertainment and vacations – items that lose much or all of their value immediately after purchase.

### Everyday Living Expenses

Meeting everyday living expenses is perhaps the most dangerous use of credit. If you don't have the cash to pay for regular living expenses today, what makes you think that you will be able to pay for it next month?



## 2.7 Sources of Help

No one in the military ever needs to deal with an emergency situation alone. There are sources of help. One of the first steps might be to let your supervisor and organizational leadership know about your situation. Also, there are several agencies that can provide specialized services to military members. Some of these agencies are listed in the following sections.

### 2.7.1 Military Family Centers

Military family centers are authorized by the Department of Defense (DoD) and have been established over the years by all the military services. Military family centers offer programs that inform and educate about various military family-related topics, including personal finance. Financial workshops and resources are offered that teach how to use credit wisely, how to buy a house or car, basics of investing, etc. Military family centers also provide military spouses with employment assistance (especially needed in conjunction with relocation or at transition of the military member). Also, family centers serve as the location for the military relief societies to assist military members who have a true financial emergency need. They also refer eligible users to the best office or agency to assist with a problem or issue, routine or crisis that is outside of their own programs.

Military family centers go by different names within each service. The Army established Army Community Services (ACS) to provide military family programs. The Navy established Family Service Centers, now known as Fleet and Family Support Centers, while the Marine Corps have Marine Corps Community Services. Formerly called the Family Support Centers, the Air Force's version is now called Airman and Family Readiness Centers. The Coast Guard has Family Resources Support and Transition and Relocation Assistance in their Work Life Division.

### 2.7.2 Military Relief Agencies: Army Emergency Relief, Air Force Aid Society, Navy-Marine Corps Relief Society (NMCRS), Coast Guard Mutual Assistance (CGMA)

Military relief agencies are sources of financial assistance during an emergency. They are able to assist with basic living expenses such as rent, utilities, food, medical bills, essential car repairs, and emergency transportation. Every form of assistance is decided on a case-by-case basis.

If married, make sure Power of Attorney forms are up to date. If for some reason your spouse does not have a General Power of Attorney, you can fill out a preauthorization form that will allow your spouse to apply for a loan from military relief organizations in your absence in the event of a financial emergency.

### 2.7.3 American Red Cross (ARC)

American Red Cross is another important resource. ARC can provide emergency funds in locales where there is no military relief agency available or nearby. When looking up the number online or in a local telephone book, be sure to look under "American Red Cross" rather than the more common name, "Red Cross".

### 2.7.4 Joint Forces Headquarters (JFHQ)

For service members who are not geographically located near military installations, services provided through the Joint Forces Headquarters (JFHQ) allow them and their families to receive resources and assistance through their local community.

### 2.7.5 Military One Source

Military One Source provides a wealth of service-related information, including information on money and debt management. They also offer short-term, solution-focused financial services available over the telephone. They can help you arrange in-person financial counseling as well, available at most CONUS locations through Military OneSource in partnership with the National Foundation for Credit Counseling (NFCC).

# 3. Deployment as an Opportunity to Save

## 3.1 Introduction

The first, and most important, part of an overall financial strategy is to have a spending plan. The first section of this library discusses the importance of a spending plan. A completed spending plan can be used to identify your short and long term financial goals and objectives.

With the spending plan completed, you can better understand the purposes of saving during deployment. Is it to pay off debt? Replace an automobile? Invest or save for retirement? Either way, having a sound plan will help you make major progress toward your financial goals.

The absence of a spending plan can result in impulsive buying. In fact, some service members spend themselves right into a financial hole, one that's actually bigger than the amount of money they saved during deployment.

## 3.2 Extra Pay During Deployment

The military provides several types of “special pay” based on the Service Member’s deployment situation.



### 3.2.1 Common Deployment-Related Special Pay

The most common types of special pay that most deployed Service Members are eligible for include:

- Family Separation Allowance (paid only to Service Members with dependents) – This entitlement is given to any service member deployed away from their family for more than 30 days. If you are deployed and are qualified, this pay will show up every month you’re deployed. It ends when you come home.
- Hostile Fire/Imminent Danger Pay – Hostile fire and imminent danger pays are monthly special pays that compensate service members for physical danger. Hostile fire pay is paid to a member who meets one or more of these criteria:
  - Takes hostile fire or is exposed to an explosion of a hostile mine
  - Is in a unit engaged in hostile action
  - Is killed, injured, or wounded by hostile fire or explosion of a hostile mine

Imminent danger pay is paid to a member who is on duty in foreign areas where he or she is subject to the threat of physical harm or imminent danger because of civil insurrection, civil war, terrorism, or wartime conditions. Although DoD regulations distinguish between hostile fire pay and imminent danger pay, they are derived from the same statute. An individual can collect one or the other, but not both simultaneously. Current rates for these pays can be found in Chapter 10, Volume 7A of the DoD Financial Management Regulation 7000.14-R.

- **Combat Zone Tax Exclusion** – If you're assigned to a combat zone, all pay (including base pay, special pays, and bonuses) will be tax exempt up to a limit of \$7363.30. In other words, any taxable income below the threshold of \$7,363.30 monthly gross pay is not subject to federal and state income tax. Re-enlistment bonuses received during a qualifying deployment month are also tax-free, whether received as a lump sum or in installments. Thrift Saving Plan (TSP) contributions made while in a combat zone are not taxed on withdrawal or distribution.
- **Per Diem** – All deployed Service Members who are in a Temporary Change of Station (TCS) or TDY status are entitled to OCONUS incidental per diem at \$3.50 per day or \$105 per month

## 3.2.2 Other types of pay increases during deployment

- **Aviation Career Incentive Pay**
- **Enlisted Flyer Incentive Pay**
- **Career Sea Pay**
- **Diving Duty Pay**
- **Flight Pay**
- **Foreign Language Pay**
- **Hardship Duty Pay**
- **Hazardous Duty Incentive Pay**
- **Special Assigned Duty Pay**
- **Special Pay for Medical Officers**
- **Special Warfare Pay**
- **Submarine Pay**
- **Wounded Warrior Pay**
- **Pay increases with promotions during deployment**
- **Re-enlistment bonuses**
- **Hazardous Duty Incentive Pay**

## 3.3 How To Approach Special/ Extra Pay

A good rule of thumb is to live off your usual financial plan if you have one; do not put extra pay into your monthly categories. Basically, live within your means. Your school of thought should not be "extra money equals extra pay." Save as much as you can or do your best to pay down debt. An increase in pay, while fortunate, can turn into a liability if families change their spending habits and become dependent on extra pay during a deployment without taking a post-deployment drop in pay into account. There's a temptation to adjust spending behaviors to accommodate the increase. People may make purchases that have monthly payments that are based on the increased deployment pay. That can present a problem later on.

## 3.4 What To Do With The Additional Pay

If you have any kind of debt, whether it's a car payment, credit card debt, or any other type of debt, those payments can be a burden on your monthly budget. Once you become certain about the amount of special pay you'll be receiving during deployment, you can direct that money toward your debt and have it eliminated, or at least significantly reduced, by the time you return from deployment.

Another important consideration is planning for the unexpected. Even if you have debt, it's important to set aside part of your pay for those unexpected expenses that can really disrupt your financial plan. The best approach is to just expect the unexpected. It's important to have an emergency fund with **at least** \$500 in it, the more the better. Even if you have a solid spending plan, things can happen during deployment that you wouldn't expect and didn't plan for. Do yourself, and your family, a huge favor and have those funds already set aside for when the unexpected happens.

If you've managed to handle your debt before you deploy, and have set up your emergency fund, you can then set your sights on setting aside that extra pay.



### 3.5 Where To Put Your Money

The military provides several options that will help you make the most of your savings while you are away. In this section we will look at some of the more popular options.

#### 3.5.1 Savings Deposit Program (SDP)

One option for saving during deployment is the Savings Deposit Program (SDP), available to those serving in designated combat zones. Military members deployed in combat zones, qualified hazardous duty areas, or certain contingency operations may be eligible to deposit all or part of their unallotted pay into a DoD savings account up to \$10,000 during a single deployment. Interest accrues at an annual rate of 10% and compounds quarterly. You can continue earning that rate of return for up to 90 days past deployment. Interest accrued on earnings deposited into the SDP is taxable.

The table below shows the impressive gains from even short-term deposits to an account earning 10 percent, compared to placing it in a regular savings account or doing nothing.

| Deposit Amt. | Int. Rate | Term      | Earned Interest | Total       |
|--------------|-----------|-----------|-----------------|-------------|
| \$10,000     | 10%       | 10 months | \$857.91        | \$10,857.91 |
| \$10,000     | 4%        | 10 months | \$337.24        | \$10,337.24 |
| \$10,000     | 0%        | 10 months | \$0.00          | \$10,000    |

#### 3.5.2 Thrift Savings Plan

Another savings strategy that is available to all service members is the Thrift Savings Plan (TSP). If you have already built your spending plan, you've probably identified both short and long-term financial goals. The TSP fits into the "long-term goals" category. That's because the purpose of the TSP is to provide a source of retirement income. It is not a savings account that can be withdrawn at any time. The TSP is a tax-deferred account, which means no taxes are due until the money is withdrawn.

To learn more about SDP, visit the Defense Finance and Accounting Service (DFAS) at [www.dfas.mil](http://www.dfas.mil).

#### 3.5.3 Allotment

Finally, Service Members, whether deployed or not, can use allotments to direct wages into any kind of account they want. An allotment is a designated amount of money that is automatically distributed for you from your pay. There can be many reasons to have an allotment, including putting money into a bank or credit union savings account, an investment account, a certificate of deposit (CD), a college fund, or any number of places.



# 4. Creating a Positive Credit History

(<http://financialplan.about.com/od/creditdebtmanagement/a/nocredit.htm>)

## 4.1 Introduction

Lenders use your credit score to determine your financial health and to assess your history of paying bills. There are several credit scoring agencies that use different ways of computing your credit scores. The most frequently used credit score is created using the FICO scoring system. FICO stands for Fair Isaac Company. FICO uses complex mathematical and statistical formulas to compute your credit score. The higher your credit score, the better your financial health. When your financial health is sound, lenders consider you less of a risk, and are more willing to extend credit. Most lenders use the FICO system to measure risk.

When you don't have a credit history, it may be difficult, and frustrating, when trying to obtain a credit card or other type of loan. Establishing your initial credit history can be a "catch-22." Not many institutions are willing to give you credit if you don't already have it; but how then can you ever establish credit if nobody is willing to give you any?

## 4.2 Understand What Lenders Are Looking For

If you're trying to establish credit for the first time, you won't have an established credit history that lenders can look at to determine whether or not to lend you money. In these situations, the lender may examine other factors to determine whether you are a credit risk:

- Bank accounts – You don't need a credit score in order to open a checking account at your local branch. Since it doesn't require credit to open, it also doesn't get reported to the credit bureaus. Even so, your account history can be a vital component when lenders consider giving you a credit card or loan for the first time.
- Residence history – Lenders will also look to see how often you move and whether you rent or own. As with employment history, it pays to have a stable residence. Owning your own home or jointly with a spouse carries weight. If you rent, making all of your rent payments on time is an advantage.
- Employment history – Another important factor lenders look at is your employment history. They want to see if you are able to hold a job or if there are periods of unemployment. Your ability to hold a steady job can improve the likelihood of getting approved.
- Utilities in your name – Even without a credit history, it's possible to sign up for many utilities in your own name. Having an electric or gas bill, telephone, cable, or water service in your name can also help build credit (as long as you pay these bills on time!)

## 4.3 Start With Your Bank

There are a few things you can do that can help in your quest for establishing credit. The first thing you should do is open then maintain a checking and savings account at a local bank. This is helpful in two ways:

- Maintaining active bank accounts in good standing helps prove that you can manage money. While bank accounts aren't typically a part of your credit score, lenders can use this information to determine whether or not you're a credit risk.
- Establishing a relationship with a bank will improve your chances in obtaining a loan or credit card through them. If you already do business with a bank, they should be the first place to look. They know you and they value your business. This existing relationship could have a bearing when seeking credit.

#### 4.4 Secured Credit Card

Secured credit is one option, and it is much easier to obtain than unsecured credit. When a credit card or loan is secured, that means that there is an asset (something you own) linked to the account that the lender can take if you fail to make payments. When you have a mortgage or auto loan, these are secured loans. If you fail to make payments, the lender will take your house or car in order to satisfy the debt.

With a secured credit card, you put money into an account to secure the credit card. For example, you could obtain a secured credit card with a \$500 limit if you put a \$500 deposit in the bank that is linked to the card. If you fail to make your credit card payments, the bank will take your deposit. However, it's important to remember that if you secure a credit account with the money in your savings account, you will not be able to withdraw that money while it is being used as collateral for your credit card.

Again, you want to check and be sure that this secured credit is reported to the credit bureaus. If so, this can be a useful tool to establish that first piece of your credit history. After you maintain that account in good standing for a while, you may be able to obtain a regular credit card or loan.

#### 4.5 When All Else Fails – Department Store Cards

Generally, store cards are a bad idea because they lure you in with an up-front discount, and then the ongoing interest rate is very high. Avoiding these cards is usually a good idea, mainly because of the high interest rates. But the ease in obtaining one may actually be a good thing if you're having trouble establishing credit. If you have been unsuccessful with your local bank, you may want to consider a local department store and see what type of cards they offer. Make sure to find out whether they report to the credit bureaus. If they don't, it will do you no good.

If you're approved for their card, you need to be disciplined and use it properly. Do not treat this new purchasing tool as free money, but only as a means to establish good credit. The limit will probably be low anyway, but you should make an initial purchase with it and after that always pay the balance off in full every month. Once the card is active, it should begin to be reported to the credit bureaus. It is crucial to maintain a good payment history on this card so your credit history can build upon it. Otherwise, such an account will end up doing more harm than good to your credit. An old trick is to fill a jar half-full of water, put the credit cards in, and stick it in the back of the freezer. The credit cards will be there in case of emergency, and you will continue to build credit as long as you're not carrying a balance.

#### 4.6 Establishing Credit is Only the First Step

Establishing a good credit history takes time. There are no shortcuts or tricks that can take you from no credit at all to a high score in a matter of months or even a few years. Your credit score is based on a number of factors such as payment history, length of time you've had credit, and much more. So, while it's important to initially establish credit, it's even more important to take the time to do the right things to maintain good credit. Pay your bills on time, pay off all credit card balances monthly, use credit wisely, keep a good standing with your banks and credit sources, and maintain your accounts for as long as you can. By doing these things, in time you will establish a solid credit history, and your credit score will increase substantially.



# 5. IMPULSE BUYING

## 5.1 Introduction

An impulse purchase or impulse buy is an unplanned decision to buy something -- a product or service -- made just before a purchase. A person who always makes such purchases is referred to as an *impulse purchaser* or *impulse buyer*. Research suggests that emotions and feelings play a big role in impulse buying<sup>7</sup>.

## 5.2 Psychology of Marketing

Emotions run high during deployment, whether you are the deployed Warrior or the family member back home. Service members have to deal with the emotional highs and lows that are a routine part of deployment, and online shopping can provide an escape for many. Back home, with families affected by the absence of the deployed service member, the lure of online shopping can be just as enticing for spouses who are forced into the extra work of holding down the fort. It's exactly these emotions that marketers will try to exploit in their attempts to get buyers to purchase on impulse.

Bear in mind that even though most marketers are not psychologists, they do use a lot of psychology to sell their products. Billions of dollars are invested into strategies to get you to part with your money.

Many of their strategies focus on "pain points," such as "Everyone's buying this - don't be left out!" or "Only a few left...buy now!" As much as we like to think that we are resistant to marketing messages, our need for acceptance can override our ability to think rationally.

Impulse purchases account for almost 40% of all money spent on e-commerce sites<sup>8</sup>. Retailers make it easy to make purchases within a few seconds. You can click through an email link to redeem a coupon, take advantage of one-click ordering, or refer a few friends and get a discount on your next purchase. All of these features are designed to bring you back to the online store and continue shopping. Unfortunately, the impulse shopping habit could also cause you to extend beyond your budget or cause you to accumulate credit card debt that you can't afford.

Impulse buying interferes with a consumer's normal decision-making process. Logical thinking is replaced by an emotional and irrational moment of self-gratification. In fact, most items bought on impulse are often neither functional nor necessary.

## 5.3 Preventing Impulse Buying

Preventing impulse buying involves techniques such as establishing a spending plan before shopping, having a pre-determined system for decision-making about purchases, and taking time out before the purchase is made.

The best purchases we make in our lives are usually not those that are made on impulse, but the ones we have given a lot of thought to. By resisting impulse purchases, we can set aside more funds for some of our bigger goals such as saving for a home or for a better automobile. It's important to consider whether buying that item on impulse might prevent you from buying something that you've needed for a long time, or might delay you from reaching more important financial goals.

7 <http://www.businessdictionary.com/definition/impulse-buying.html> businessdictionary.com, retrieved August, 2010.

8 <http://www.ue.com/publications/whitepapers/ImpulseBuying.pdf> E-Commerce White Paper: What Causes Customers to Buy on Impulse?

## 5.4 How Our Emotions Feed Into Impulse Buying

Some service members describe deployment as ranging from intense chaos to intense boredom, and everything in between. Back home, family members will experience disruption in their daily routines, and much added responsibility. “Down time” becomes especially valued (and rare!) for the spouse managing the household on their own, and relaxation and escape are at a premium. It may be hard to resist the temptation to log onto the Internet or drive to the local mall and engage in impulse buying. In fact, some would say it’s an addiction. And like most addictions, impulse buying is an attempt to reduce discomfort.

It’s important to take the time to understand these impulses. It’s natural to look around for something to soothe any agitation, urgency, irritation or dissatisfaction that may be experienced as a result of daily stressors. Today’s world is filled with a variety of material goods and reassuring messages that such products will be satisfying and the answer to stress. Not surprisingly, such successful marketing drives the impulse to shop, where a purchase is a mere click or cash register away. The feeling of urgency increases and drives the purchase of whatever one’s particular ‘thing’ is. It feels very satisfying at the time, lifted up on a wave of anticipation and acquisition.

But once the purchase is made and the product is home, it’s common to experience a hollow feeling of dissatisfaction from having spent money on something that, as it turns out, wasn’t really needed. All too often that dissatisfaction will cause the impulse buyer to go back to the shops again, or go back online. The enticement of the advertisers calls the buyer back once more, with another assurance that making that next purchase will feel good.

Unfortunately, the impulse purchase cycle fails to address or resolve the causes of the impulse purchase. Bothersome feelings like agitation, dissatisfaction, and irritation arise because there really is something that’s missing, something that’s actually needed, usually something emotional or psychological or social; in other words, not something material.

Deployment transports service members to dangerous and unfamiliar environments. Far from home, feeling lonely and missing family and friends can be common. For the spouse back home, increased workloads are accompanied by the loneliness that comes with separation, worry about the safety of the deployed service member, and the ongoing anticipation about the return home. Unfortunately, instead of identifying those negative feelings and responding to them the right way, there is the tendency to be drawn in by advertisements that claim to have the answers to every woe.

Because the real need is rarely satisfied by the buying impulse, the negative emotional state re-emerges. And a vicious cycle plays out. After a while, a “habit” takes shape that is difficult to undo. Trying to get “positive” emotional feedback from buying non-essential things can be a dangerous financial road to go down.



## 5.5 Steps to Take to Break the Impulse-Buying Habit

The first step in controlling impulse buying is to understand the motivation behind the impulse to purchase. Is boredom driving the impulse? Depression? Stress? Loneliness? Fatigue?

Before buying something on impulse, the following questions will help to weigh the value of a potential purchase:

- Is the purchase going to improve or simplify my life in some important way?
- Am I making this purchase to try to make myself feel better?
- Does this purchase help me meet one of my life goals, or is it actually keeping me from one or more of those goals?

Another step is to differentiate “need-versus-want”. Before clicking on the “buy” button ask this question: “Did I decide that I needed this item before I saw it online?” Usually, the answer is no. If you didn’t need the item before you saw it, you probably don’t need it after you see it.

Another consideration: after the purchase is complete, how long will it take for the item to lose its appeal? After similar purchases, how long did it take for those purchases to lose their appeal? Often, impulse purchases are followed by feelings of regret, emptiness, and even depression. In those cases, the item loses its appeal immediately. In other cases, there may be a period of initial excitement, with a gradual wearing down of the item’s appeal.

One way to control impulse buying is to build a waiting period into each potential purchase. By waiting for 24-48 hours, and then re-considering the purchase, a common outcome is to decide against the purchase.

Another way to control impulse buying is to keep a list of five items you’d most like to purchase. Keep the list current by removing items that are no longer of interest and adding new items you see that you’d like to buy. The list should include no more than five items. Establish a rule regarding how long an item can remain on the list (one week or two weeks?) before it’s okay to purchase it. This would be called the “purchase approval date.” When an item is added to the list, write down the

purchase approval date. Items that remain on the list for that specified period of time (again, perhaps a week or two) without being removed are okay to buy. Under no circumstances should something be purchased that is either not on the list or has not reached its purchase approval date. If there is a desire for something new, replace one of the items on the list with the new object of interest. But, don’t purchase the new item right away. Budget for these purchases, maybe \$20 to \$50 per paycheck, and do not make a purchase until enough has been saved to pay cash for the item, on or after the purchase approval date. Then, if that item survives the cut and makes it to the top of the list, make the purchase. When spending is restricted to paying cash only for items on the list, not only is “buyer’s regret” less likely, the item will likely retain its appeal and usefulness for a longer period of time.

Research shows that moods can affect the ability to resist temptation. Both good moods and bad moods can encourage impulse buying<sup>9</sup>. Having a bad day? Don’t shop to cheer yourself up! Feeling great? Don’t shop to celebrate! Keep track of your moods and how much high, or low, emotions have been kept bottled up. Maintaining a high level of self-control will often be followed by a period of emotional relaxation that makes it easy to justify impulsive purchases “because I deserve it.”

Finally, before going online to shop, eat a snack. Hungry people buy more and are more impulsive than people who are not hungry<sup>10</sup>.



9 <http://www.businessdictionary.com/definition/impulse-buying.html> businessdictionary.com, retrieved August, 2010.

10 <http://www.ue.com/publications/whitepapers/ImpulseBuying.pdf> E-Commerce White Paper: What Causes Customers to Buy on Impulse?

# 6. *Predatory Lending: Payday Loans*

## 6.1 Introduction

Predatory lending is any kind of fraudulent, deceptive, discriminatory or unfavorable lending practice. These include high-interest “payday” loans, as well as internet loans, car title loans, military installment loans, rent-to-own loans, and tax refund anticipation loans. These loan products have several things in common: extremely high costs, high risk to both property and career, and coercive collection practices. All of these products are dangerous to service members, and should be avoided at all costs. This section focuses primarily on the payday loan, as this is the most common loan product<sup>11</sup> that traps service members into ever-increasing cycles of debt.

## 6.2 Service Members: A Targeted Population

Payday loans are a very dangerous form of predatory lending, simply because they are so widespread. There is plenty of evidence to indicate that the payday industry deliberately targets the military, including deliberately placing payday loan centers close to military bases. In fact, most military bases are surrounded by an overabundance of payday loan offices.

One interesting exception is Parris Island Marine Corps Recruiting Depot in South Carolina, which has virtually no payday lenders nearby because the Marine recruits are not allowed to leave the installation during the time they are assigned to that location. Without the availability of service members, payday loan centers are much less likely to open shop in a non-supportive location.

Military culture discourages indebtedness. Thus, many service members are embarrassed to seek help, in spite of the fact that all branches of the military offer some form of financial support services. Extreme indebtedness can lead to non-judicial punishment, Article 15 proceedings, revocation of security clearances, or even discharge. So for some service members, the fear of disciplinary action keeps them from taking advantage of available help.

Unfortunately, many service members seek immediate assistance from payday loan services, which consequently causes additional financial strain.

### 6.2.1 Why Service Members Are Targeted By Predatory Lenders<sup>12</sup>

Payday loan services target service members for a number of reasons. Service members have steady jobs and most of the military is made up of young adults. The vast majority of service members – 84% – are under 25 years old. Most are stationed far from home, and many for the first time, which means that families and friends are unavailable to provide financial help.

Low salaries also make service members targets for predatory lenders. Seventy-four

<sup>11</sup> <http://www.military.com/money/content/personal-finance/credit-debt-management/dod-cautions-against-loan-shark-lenders.html>

<sup>12</sup> Bruce Watson, Predatory Payday Lenders Target Military Families: Members of the Armed Forces Three Times More Likely Than Civilians to Get a Payday Loan. Daily Finance, 4/15/11

percent of service members are in the six lowest ranks, and most make less than \$31,000 per year. In spite of these figures, payday lenders consider service members a stable group of borrowers. They are unlikely to get fired and are unable to quit, so lenders are assured that borrowers will continue to have a steady income for the duration of the loan, especially – as with payday loans – when the loan only extends over a matter of weeks.

Service members are required to have checking accounts for direct deposit. This gives payday lenders an avenue to access service members' money. Also, most payday lenders do not request a credit report because they're more concerned about gaining access to the service member's wages than in the service member's ability to repay the loan.

### 6.3 Deceptive Marketing

Many payday loan centers use names that suggest some form of military affiliation, such as "Military Loans," or "Armed Forces Financial." They might employ former service members in order to recruit new business. Such practices are designed to deceive service members into believing that they are dealing with reputable lenders whose primary concern is the welfare of the service member.

While many businesses target the military in legitimate ways, payday loans are intentionally designed to trap service members into a cycle of debt that's difficult to break. A big part of that problem is the interest rate. For example, triple-digit interest rates on payday loans are common. In fact, payday lenders can get away with charging annual interest rates as high as 780%! Service members, beware of such lenders!

### 6.4 How Payday Loans Work

Assuming an application for a typical \$500 payday loan, for example, payday lenders can process such a request and provide these funds within hours. Usually a credit report will not be required. In order to process the loan, payday lenders will normally require a post-dated check for the payback amount before they issue the money. By doing so, UCMJ 123a and 134, which forbid service members from "making, drawing, or uttering check, draft or order without sufficient funds," has already been potentially violated. Doing so can be punishable by as much as a dishonorable discharge, loss of security clearance, court martial, transfer, or even confinement.

Most service members assume that they will have the funds to cover that post-dated check. However, the majority of service members who take out payday loans are not able to cover their post-dated checks and pay back their payday loans. In fact, 75% of payday loan customers are unable to repay their loan within two weeks.<sup>13</sup> Even so, when payday comes, many lenders may go ahead and process the

check anyway, adding Non-Sufficient Fund (NSF) fees and "processing" fees to the original principle.

If that is the case, payday lenders are able to "flip" your loan into a new one to cover the original principle, interest, and accumulated fees. So the \$500 loan might now become a \$650 loan, secured with another post-dated check.

If the second post-dated check can't be covered, payday lenders typically "flip" another loan, and very quickly the borrower becomes stuck in a debt-trap cycle. In fact, 90% of payday loans go to borrowers with five or more payday loans per year, and only one percent of loans go to borrowers who take out only one loan per year. In other words, most people end up accruing much more debt than they initially planned.

The payday loan industry makes approximately 90% of their revenue by making more and larger loans to repeat customers.<sup>14</sup> Many payday loan contracts even contain language that protects them and severely restricts a borrower's rights.

<sup>13</sup> Commander Navy Installations Command website, [http://www.cnic.navy.mil/CNIC\\_HQ\\_Site/WhatWeDo/FleetandFamilyReadiness/FamilyReadiness/FleetAndFamilySupportProgram/PersonalFinances/PaydayLoansAwareness/index.htm](http://www.cnic.navy.mil/CNIC_HQ_Site/WhatWeDo/FleetandFamilyReadiness/FamilyReadiness/FleetAndFamilySupportProgram/PersonalFinances/PaydayLoansAwareness/index.htm)

<sup>14</sup> *ibid*

## 6.5 Laws Governing Payday Loans

Payday loans (and certain other financing) offered to service members and their dependents are supposed to include certain protections under Federal law and Department of Defense rules. For example, for payday loans offered to service members after October 1, 2007, the percentage rate cannot exceed 36%. All the fees and charges, with few exceptions, must be included in that rate.

In practice, however, service members in most states do not have to identify themselves as military personnel when requesting a payday loan, even if they are in uniform! In addition, lenders will often make no effort to identify military personnel. Furthermore, there's nothing keeping military family members from obtaining payday loans without having to disclose their military affiliation.

Other lenders, however, will ask loan applicants to sign a statement about their military status. For those that do follow these rules, they know that they may not require the use of a check or access to a service member's account in order to process the loan. They also must not require mandatory arbitration or unreasonable legal notices.

Military consumers also must be given certain disclosures about loan costs and rights. Credit agreements that violate these protections are void, according to the law.

## 6.6 How Some Payday Lenders Get Around the Law

Many outside non-profit groups who assist service members say that many lenders have simply changed the terms of the loans, such as extending the repayment deadlines, in order not to fall under the new rules<sup>15</sup>.

Another part of the problem is a huge legal loophole: Many states only regulate loans that are made to permanent residents. Since most military personnel are not posted to their home states, lenders who target them are often able to operate "under the radar," free of regulation.<sup>16</sup>

As a result, in spite of both state and federal laws regulating payday lending, predatory payday lending continues to victimize service members caught up in bad times.

## 6.7 What's A Service Member to Do?

Instead of seeking out a payday loan, there are better options that Service Members and their families can pursue to solve temporary financial troubles. The first suggestion is to contact your nearest Military Family Center and ask to speak to their on-staff Personal Financial Management professional, who can provide no-cost, confidential financial counseling.

For assistance during emergency situations, each branch of the military has programs to help service members who are in financial crisis. Programs such as Army Emergency Relief (AER), the Navy-Marine Corps Relief Society (NMCRS), the Air Force Aid Society (AFAS), and the Coast Guard Mutual Aid (CGMA) exist to provide assistance to service members and their families in times of financial emergencies.

Finally, many of the banks and credit unions located on military bases provide lending products that fulfill the need for quick cash without causing you to fall prey to the abusive lending practices of the payday lenders.

<sup>15</sup> <http://www.veteranstoday.com/2011/01/25/at-fort-sill-high-interest-lenders-prey-on-underpaid-troops/>

<sup>16</sup> Bruce Watson, Predatory Payday Lenders Target Military Families: Members of the Armed Forces Three Times More Likely Than Civilians to Get a Payday Loan. Daily Finance, 4/15/11

