

The Power of One was written as a guide to help people achieve home ownership and understand what an integral part it plays in achieving the goal of financial security.

The book was written to accompany a free one-day seminar offered by the Tarle Education Network.

The book's author, Ernie Tarle founded the network to help underprivileged kids and young adults understand the fundamentals of building wealth.

All of the Network's offerings are free.

To enroll or learn more: 330-794-5911.

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# The Power of One

By Ernie Tarle

*To my beautiful sons,  
Through faith and sacrifice, all things are possible*

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# Chapter 1

## **The Problem with Being Poor**

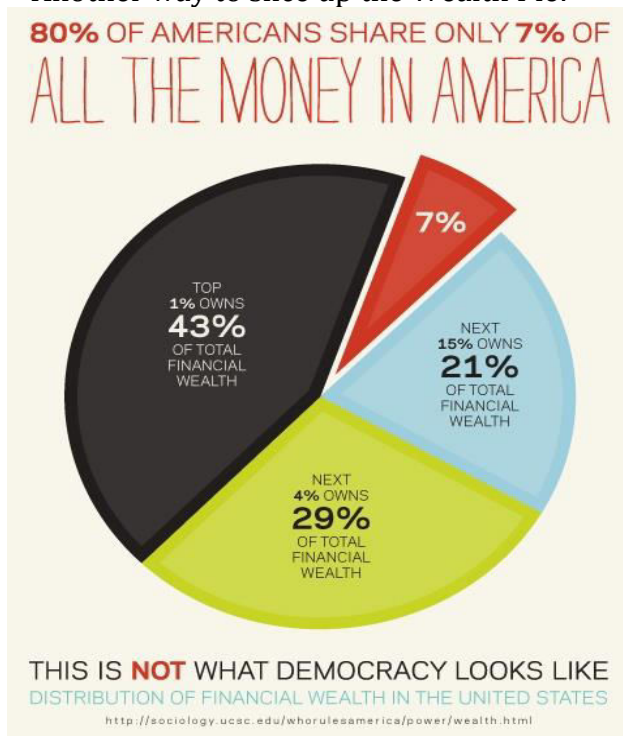
In 2008, a man named John Edwards ran for president. In his campaign, he described what he saw as two Americas – those who “have” and those who “have not”.

Today, I see four Americas:

1. The top 10% who own 85% of the wealth in our country and basically run everything.
2. The next 10%, which own another 10% of the wealth and live real well.
3. The next 30% who own 4% of the wealth and are enjoying a small slice of the American dream.
4. And then there are all the rest of us. We make up half of the country but own just 1% of the wealth. Most of us live from paycheck to paycheck and a lot of us don't even get a paycheck at all. In short, the American dream has left us behind.

I say “we” when I talk about the bottom 50% because that’s where I started. I was born a poor kid from east Akron, the son of a rubber worker who was the son of a rubber worker who married the daughter of a rubber worker. And my mom - well she worked at a rubber company too.

Another way to slice up the Wealth Pie:



From these humble beginnings and growing up in a tough part of town, I learned a lot about how hard it was to be poor: Cars that wouldn’t start, slim pickings at the dinner table, crime in the neighborhood, and troubled schools. I

could go on, but most of you already know. (That's the only joy of being in this majority)

But way beyond all the hardships that poor folks have to endure, what I found to be the hardest part of being poor was genuinely not knowing how to stop being poor.

Now this may sound silly but it's really not. You see I was a hard worker, just like everyone else in my family and I was willing to do whatever it took. The problem was I didn't know what that was. Worse yet, I didn't know anybody who knew what it took. They were poor just like me.

From my neighborhood, all the kids went to Akron Central-Hower for high school. When we got there on day one for orientation, we were gathered in the auditorium where the inscription above the stage read, "I will study and get ready and perhaps someday my chance will come." Abraham Lincoln said that and I don't take exception to it. Preparedness is clearly required to be a success in this life but it's not a guarantee. I get it.

But what did bother me was that they then proceeded to tell us that knowledge was power. But they never really gave us the kind of knowledge that truly empowered us in the real world. At least not the one we lived in, back in East Akron. Instead, they taught us Algebra, English Literature, World History, Earth Science, etc.

But I'm wondering why they never taught us about things like credit and how it worked and how to build it. I believe this is a mistake at best (or perhaps it was an institutional decision to try to keep poor folks in their place? I wonder.)



## **Credit – The Great Equalizer between Rich and Poor**

You see, I believe that credit is the greatest equalizer in America between those who have and those who do not. It is the ONE thing that puts us in the game of financial viability and allows us to compete.

Why?

Imagine you're a middle class 19-year-old kid and you discover a business opportunity that costs \$20,000. And it's a sure bet to double your money! Do you think your dad will lend you the money?

Now what if you live in a poor neighborhood like mine? Is there anybody you know that even has \$20,000? Even in



their IRA? In fact, how many people from my neighborhood do you think even knew what an IRA was?

But let's say the kid from my neighborhood understood credit and took good care of it. He could easily have a credit card or two that would allow him to access \$20,000 right away and take advantage of this opportunity.

In fact, with good credit management and a couple years of steady income, he could access hundreds of thousands of dollars from the banks. And that number could quickly grow to millions.

How do I know? I did it.

The alternative to taking good care of your credit is to live a life that is filled with higher payments for everything and financial turmoil. Consider these:

1. Rents that are double what your mortgage could be
2. High car payments from buy here/pay here lots
3. Renting furniture, TV's and appliances at exorbitant prices
4. Usury rates from cash advance payroll loans and title loans

All these things will keep you down and lead to a life of financial struggle. We hope to shine a spotlight on just how dramatically different one's life can be by following a few basic rules.

## **About this Course**

We have 3 major contentions:

- A. Our economy and the system is rigged against the working class and the poor
- B. Understanding basic financial principles will help you to level the playing field
- C. Owning your own home is the first step to building a better financial future

Our goal in this course will be take you through each of these contentions and demonstrate just how easy it will be to accomplish the end goal and beyond.

## **A. A Rigged System**

### **1. Lack of financial knowledge**

As I have mentioned, I believe that the hardest part of being poor is not knowing how to stop being poor. We find ourselves trapped, living paycheck to paycheck.

In the end, we are trapped primarily by our lack of vision and understanding. Put simply; we don't know what we don't know. And how could we? No one around us knows the secrets to financial success. And if they do, they probably aren't waiting in line to share it with us. And the schools aren't sharing that kind of knowledge either.

Meanwhile the rich folks are playing a totally different game. While we are working hard for our money, they know that the key is to make your money work for you. Armed with full knowledge of our financial system, they concern themselves with things like ROI, higher yields, and asset protection. Do you even know what those terms

mean? If you are going to succeed in this world, you will need to know, and we can help.



## 2. Low wages

The second way the system is rigged is that corporations want to pay as little as possible to its workers and they do. To get their payrolls even smaller, many of them have taken their jobs overseas. And our government has let them do just that.

Low wages is a simple product of too few jobs and too many folks looking for them. This ultimately enables the companies to keep wages down. One could argue, that this may be why the schools (aka. our government) don't want to arm us with the knowledge we need to break out of this rut. Sound far-fetched?

Consider that the Walton family (Wal-Mart) donates millions of dollars to U.S. politicians. Wal-Mart pays minimal wages to its employees. Their wages are so low,

in fact that many of their employees qualify for government assistance. In fact, last year Wal-Mart employees received \$6.2 Billion dollars in welfare-type subsidies. In this case, our government is directly enabling corporations to keep wages low.

I don't even want to get started on tax loopholes, but we'll touch on what you need to know there too. I'm not trying to depress you but you need to understand that you are not competing on a level playing field. This course will not be able to solve all of that but we can get you a lot closer to the goal line by arming you with financial knowledge.

## **B. Leveling the Playing Field**

In this course, we are going to identify the key elements of financial literacy that you need to get you to home ownership and beyond.

These are the elements that we believe are vital:

1. Household budgeting and saving money.
2. A basic understanding of various investments and how to make your money work for you.
3. A basic understanding of our tax system and how to stop it from working against you.
4. A definite plan to repair, build, and sustain credit.

## **C. Home Ownership**

It is my contention that owning your own home versus renting is the first step to financial freedom. It has been called, "The American Dream" and can help you financially

in a number of ways. We are going to outline those benefits and show you exactly what you need to do to obtain a low-interest FHA or NACA loan.





## Chapter Two

### **Step 1 to Homeownership:** **Living within your means and saving money** *Understanding the average household budget*

Today in my hometown of Akron, Ohio, the median household income of four is about \$39,000 a year. That means that half of the city lives on that amount or less. (Remember the part about 50% of us own less than 1% of the wealth?) To say that \$39,000 is not a lot of money to raise a family of four, would be an understatement.

I start here because I think it's important to understand what we're up against. Especially for my younger students, many of who will have children at an early age, before they are ready financially. I especially want you folks to take a long hard look at this.

Starting here also makes sense because on your path to home ownership **goal one is to save some down**

**payment money.** That means we have to make more than we spend. If we don't, we have to do one of two things: make more or spend less. Either way, laying out your budget on paper is a great way to start. It helps us to see if we're on the right path and enables us to make changes if not.

### **Monthly Household Budget for Family of 4 making median income of \$39,000 a year:**

After taxes = \$30,000 approximately or  
\$2,500 a month

#### Monthly Expenses:

Rent	\$750
Gas	\$100
Electric	\$100
Water/Sewer	\$150
Food	\$1000
Car payment	\$250 (1 car)
Car insurance	\$75
Gasoline	\$200
Health Ins.	\$300
Cable	\$50
<u>Cell Phones</u>	<u>\$75 (2)</u>
Total	\$3,050

So if this family clears about \$2,500 a month, they're already operating at a \$550 a month deficit to live this lifestyle but...

What happens if...

The car breaks down?  
Somebody gets sick?  
Somebody smokes?  
Somebody drinks alcohol?  
The washing machine breaks down?  
The family wants to buy Christmas presents?  
Or buy a birthday present?  
They want to go to the movies?  
They want to buy a new pair of shoes?

Obviously, the average family in Akron has to make a lot of tough choices and do without a lot of things. Usually the first things to go are car insurance and health insurance. When they do, bad things can happen financially and then some.

It's easy to see how credit gets wrecked and why so many people are in that financial death spiral!

Here's what I hope you will take away from this simple budget that so many in our city are living through:

1. Don't make a 'family' until you're financially stable.
2. If you're already in this boat, you have to find a way to earn more. I would propose working for yourself and I'm pleased to tell you that we will soon be offering a program called E Prep to teach you how to open and grow your own business.
3. By obtaining an FHA loan on a similar house, this family could save close to \$400 a month on their rent and have an immediate \$20,000 in equity from which they could borrow.



So I want to ask you, would an extra \$400 a month and a \$20,000 savings account make a real difference in this average Akron family's life? Of course the answer is YES and this is exactly what I'm going to show you how to do.



## Chapter Three

### **Step 2 to Homeownership: Avoiding the Cash Trap**

*How and why to open a checking account*

I have been a landlord for many years and there are a lot of things that I just don't understand about tenants. The most puzzling thing of course, is why they insist on paying all that money on rent year after year and have nothing to show for it.

Equally baffling is why so many of them insist on driving across town to deliver their rent in cash. Now, don't get me wrong, I'm not complaining. I love cash and I even enjoy seeing my tenants during these happy cash

exchanges, but from their perspective, wouldn't it be easier to just put a check in the mail?

### **Consider the potential problems with paying cash:**

1. Cash can easily be lost or stolen
2. The time spent driving over is time lost/wasted
3. The gas costs money
4. Many times tenants come over unannounced and I'm not here = more time wasted.
5. If they decide to leave their money in the drop box, they have no receipt and have to rely on my honesty. (That part works for them fortunately ☺)
6. If they do get a receipt, it can be easily lost.

I would argue that paying cash in the manner described is a really bad idea for all the reasons mentioned. I will still happily continue to take my tenants' cash payments in person, but I'm hoping for better for you!

Let me strongly urge you to open a checking account!

### **Advantages of using a checking account:**

1. Checks are FREE  
Compare this to the cost of buying money orders or the cost of gas.
2. Checks don't get lost  
If they do, they are easily replaced. Cash is not. Furthermore it is a felony for someone to fraudulently use your checks and if they did they are almost sure to be caught because the checks are so traceable.

3. A Debit card comes along with a checking account  
This allows you the convenience of a credit type card and helps to demonstrate your trustworthiness.
4. Checks are proof that something has been paid  
A cancelled check is indisputable evidence that you have paid and the bank keeps record of every one of them. This will be very important when you go to get a bank loan because you will be able to demonstrate to your potential lender that you made all your rent payments on time. It is important to know Lenders do not consider receipts from landlords as valid evidence.
5. A checking account is like having a free bookkeeper  
As I mentioned, banks track every single check you write, keep a copy of them, and send you a statement of all activity for the month. They will also provide you with a copy of any cancelled check you may need. Having a free bookkeeper that keeps reliable records is hugely valuable for a small businessman and will be of great benefit to you as well.
6. A checking account can help demonstrate income  
If you put all your paychecks into the account, your monthly statements can document the income. This also helps banks to see the “source” of where your money is coming from. When you apply for an FHA loan, they will ask to see the last 2 months of your bank statements.



## **Opening a Checking Account**

As I mentioned, many banks offer accounts absolutely free to entice you to put your money in their bank. Citizen's Bank is the one I use. You can start one today with a driver's license and as little as \$10. They will even give you unlimited checks. All they ask is that you make at least one deposit of your money each month!

## **Using a Check**

A check has the following components:

1. The Date the check is available is on the far right.
2. A line to write in the name of the recipient

3. The amount of the check in numbers.
4. The amount of the check in writing.
5. Your signature.
6. The numbers at the very bottom of the check identify the check. The first group of numbers are the bank's routing number (for wire transfers), then the account number, and finally the check number itself. This is also written at the top right hand corner.
7. A line (bottom left) to write a memo for your records as to what the check is for.

**John Doe**  
123 Main St  
Anywhere US 10111

790

Date 01/01/2016

PAY TO THE ORDER OF THE SANDWICH SHOP

\$ 8.15

EIGHT AND 15/100 DOLLARS

Your Bank  
456 Main St  
Anywhere US 10111

MEMO Lunch w/ Friends

Jane Doe

⑆123456789⑆ 1001001234 0190

Writing a check is as simple as filling in the blanks. Be sure that when you write in the amount, you don't leave any room for someone to alter the amount. Putting a line next to the words can easily do this. Ex. -----Eight hundred-----.

Any alteration on top of that line will immediately void the check and a bank will not cash it.

Post-dating a check:

If you want to issue a check but don't want the person you are giving it to cash it until a future date, you can accomplish this by writing in that future date on the check. The bank will not cash the check until that date.

### **Balancing a Checkbook**

We've talked a lot about the advantages of using a checking account, now we need to talk about the responsibilities that come with it. That primary responsibility is to balance that checkbook to make sure that there is always enough money in the account to cover the checks that you have written.

If you write a check and the funds are not available, the bank of the person who received it will return it to them and charge them \$25-35 for processing. Similarly your bank may choose to pay the check. This will cause you to have a negative balance and they will charge you a fee. If you bounce multiple checks, these fees can hurt your feelings as well as your wallet. The good news is these troubles can all be avoided by simply keeping good records in your check register.

### **Checkbook Specifics**

1<sup>st</sup> Column – This is where you record the check number.

2<sup>nd</sup> Column – The date

3<sup>rd</sup> Column – Transaction. This is where you write who the check is for on the white line and what the check is for on the grey line below it.

4<sup>th</sup> Column – Withdrawal. This is the amount of the check or cash withdrawal. They allow spaces for both the dollars and the cents.

5<sup>th</sup> Column – Deposit. Any time you put money into your account, that amount is written in the deposit column.

6<sup>th</sup> and final Column is where you write in the balance.  
You should always know your balance before writing a check.

John Doe  
123 Main St  
Anywhere US 10111

Date 01/01/2015

790  
1-878/1238

PAY TO THE ORDER OF The Sandwich Shop

\$ 8.15

Eight and 15/100

DOLLARS

Your Bank  
456 Main St  
Anywhere US 10111

MEMO Lunch w/ Friends

Jane Doe

⑆123456789⑆

⑆00001234⑆

0790

Check Number	Date	Description	✓	Payment/ Debit (-)	Deposit/ Credit (+)	Balance
0790	1/1/2015	The Sandwich Shop		8.15		91.85



CHECK NO.	DATE	DESCRIPTION	TRANSACTION AMOUNT	DEPOSIT AMOUNT	BALANCE
161	6/4	Sound Out	216.30		216.30
		new tape deck			150.67
ATM	6/18	Withdrawal	35.00		35.00
		Spending money			115.67
ChkCrd	6/18	Check Card	55.00		55.00
		Foodland Groceries			60.67
ATM	6/23	Deposit		1200.00	1200.00
		Transfer from savings			1260.67
162	6/24	Racy's	82.87		82.87
		New clothes			1177.80
ATM	6/25	Withdrawal	20.00		20.00
		Movie & pizza			1157.80
163	6/26	Woodland Apt's.	1000.00		1000.00
		Rent for everyone			157.80
ChkCrd	6/26	E-Z Shoppe	54.11		54.11
		Groceries			103.69
164	7/5	CD Place	26.31		26.31
		Acct. # 7M3406			77.38
165	7/17	Lucasfilm, Ltd.	10.00		10.00
		"Monkey Island" T-shirt			67.38
ATM	7/14	Deposit		253.17	253.17
		Paycheck			320.55

Always remember:

1. Enter all your deposits
2. Record your checks as soon as you write them
3. Do the math and double-check so you always know your balance before you write a check

Taking good care of your checking account is a great way to start to build a good relationship with a local bank that will lead to more open credit doors!



## Chapter Four

### **Who took my money and where did it go?**

#### *Understanding Taxes*

One of the biggest debates in our government today is how to best and most fairly tax our citizens. Many argue that there are too many loopholes for the rich while others argue that taxes on our corporations and our most affluent are too high already.

We'll consider that debate, but for our purposes, I mostly just want you to understand the basics. In doing so, hopefully, we can save you a few dollars by understanding deductions that may be available to you or at least show you how to file your own taxes and save the accountant fees.

### **Who Collects the Taxes?**

The first thing to understand is that we are taxed in many ways by every level of our government including:

Local Government – city and county

State Government

Federal Government

## **Types of Taxes**

Each level of government uses different types of taxes that most directly apply to them. The most popular is income tax, which all levels tax us on. Here are some of the other ways we are taxed, and who administers the tax:

Sales Tax state/local

These taxes are applied whenever you buy something.

Here in Summit County the rate is 6.75% so a \$100 purchase will cost you \$107. The state charges 5.75% and the local government adds 1%.

Property Tax local – schools = about 50%

Property taxes are charged to anyone who owns a house or a piece of land. These taxes can go up or down. Before these taxes are raised, local government entities like school districts must put a levy on the ballot and ask voters for approval. In the city of Akron, if you own a \$53,000 home today, you will pay about \$1,450 a year in taxes.

User Fees city, county, state, federal

User fees come in many forms from the State charging for driver's licenses and tags to the City charging for such things as building permits or trash removal, to the Federal government charging for a passport. Any time you interact with the government and they charge you for that service - that is considered a User Fee. And some of those

interactions can be completely unwanted, like a speeding ticket.

### Income Tax city, state, federal

Income taxes are taken out of your paycheck or required of you to pay at the year end and are due April 15<sup>th</sup>. These taxes can be progressive as in the case of our Federal and State government, or flat as are most city taxes.



### **Our Progressive Income Tax Structure**

This is where the debate over income taxes starts. Here in America we have what's called a progressive tax structure, which means if you make more money, you are taxed at a higher rate. For example, if you are a single person, this is how much you would have paid at these different income levels in 2015:

Income	Rate
0 - \$9,075	10%
\$9,075 - \$36,900	15%

\$36,900 - \$89,350 25%

\$89,350 - 186,350 28%

\$186,350 - \$405,100 33%

\$405,100 - \$406,750 35%

\$406,750 Plus 39.6%

Is it fair?

Those who make the most don't think so. But the other side argues that if you have more, you can afford to pay more.

To offset these differences, the two major political Parties in America have wrestled behind the scenes to develop a tax code that is very, very hard to understand. It is filled with loopholes to help the rich escape what seems an unfair structure for them. On the other side, the Parties have worked in allowances for lower wage earners like bigger deductions for having children.



## **Regressive Taxes**

Unlike a progressive tax that charges a greater percentage for those who have more, a regressive tax charges the same from everyone. It is a flat tax.

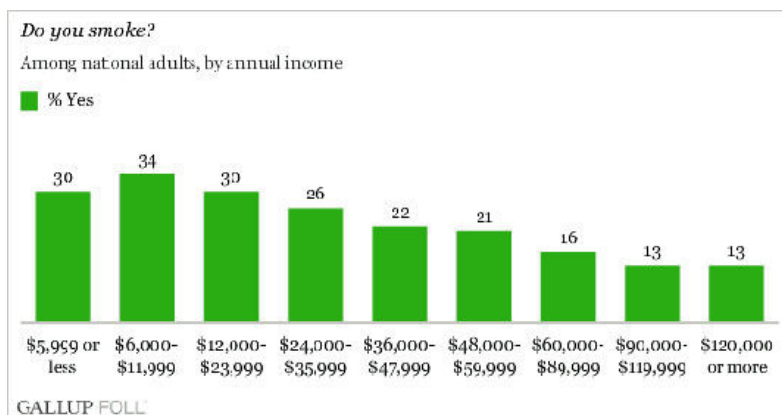
A good example would be the taxes on cigarettes. Today in Ohio, a pack of cigarettes will cost you about \$6.50 on average. About \$2 of that goes to the state in taxes and \$1 goes to the federal government. That's \$3 a pack in taxes and almost doubles the total cost. This is commonly called a "sin" tax.

So what's wrong with that?

Nothing, unless you're addicted to nicotine and making the federal minimum wage of \$7.25 an hour. If you're in that boat and smoking 2 packs a day, you're working almost an hour every day just to pay the government for the right to smoke.

On the other hand, if you're a member of an average American household earning \$73,000 a year, the cost of smoking isn't that big of a deal, financially speaking anyways.

The funny part, or actually the sad part, is that the grand majority of people who smoke are those that can afford it least.



Why do you think that is?

Remember that the median household income in Akron left our family of four's budget \$500 short of what they needed every month. Add in just one pack of cigarettes a day:

$\$6.50 \text{ a day} \times 30 \text{ days in a month} = \$195 \text{ a month}$

I was that smoker. And I earned minimum wage. It was the first thing I gave up when I decided to get serious about my financial freedom.

## Filing Your Taxes

The tax year starts January 1<sup>st</sup> and ends December 31<sup>st</sup> but the taxes aren't due until April 15<sup>th</sup>. Those are the rules that corporations play by.

Most of us have our taxes deducted from our weekly paychecks, automatically. The government then holds the money and some of it is returned to us at year's end.

How much we get back is determined by how many deductions we have. Common deductions are for the number of children we have or how much of a mortgage payment we can deduct.

### **Tax Credits and Tax Deductions**

A deduction is an expense you subtract from your income. If you own your own business or are an independent contractor there are many deductions that are available to you. One very common one is a mileage expense. For every mile driven for business you can deduct 56 cents. So if you drove 10,000 miles this year, you could deduct \$5,600. If you earned \$20,000 in that business this year, your taxes would look like this:

\$20,000	Gross income
<u>-\$5,600</u>	<u>Mileage expense</u>
\$14,400	Taxable income

A Tax Credit applies not as a deduction to your income but directly to the tax itself. If you had a tax credit of \$1,000, for example, your taxes would look like this:

\$14,400	Taxable income
\$1,400	Taxes due
<u>-\$1,000</u>	<u>Tax credit</u>
\$400	Taxes owed

### **The Earned Income Tax Credit**

This is the most common tax credit for working families with children. It was designed to supplement wages of low to moderate wage earners. It allows for a \$1,000 tax credit



for each child. The credit gets smaller for couples earning more than \$110,000 a year.

Statistics show that 25% of those eligible fail to file for this tax credit.  
 If you haven't claimed it and are eligible, you can get a refund from the last 3 years!

# Where does your Paycheck go?

123 - John R. Doe      Pay Period 06/02/06 to 06/16/06				Required Deductions		
Earnings				Federal Income Tax	00.00	00.00
Hours	Rate	This Period	YTD	FICA - Medicare	06.08	12.16
50	9.00	450.00	900.00	WI State Income Tax	00.00	00.00
Gross Pay		450.00	900.00	FICA - Social Security	25.92	51.84
				Other Deductions		
				Health Insurance	00.00	00.00
				401k	00.00	00.00
				Parking	00.00	00.00
				NET PAY	\$418.00	\$836.00
<div> <div> Your Employer  1234 Some Street  Milwaukee, WI ZIPCODE </div> <div> Check Number: XXXXXX  Pay Date: 06/19/06 </div> </div> <div> PAY    ***Four hundred eighteen dollars and 00 cents*****\$418.00 </div> <div> To the Order of  John R. Doe  555 Some Street  Milwaukee, WI ZIP CODE </div>						

## Automatic Deductions for an Akron family earning \$39,000 year

### FICA Tax – 7.65%

This is a payroll tax that the Federal government charges to pay for Social Security and Medicaid

### Federal tax – 10-15%

10% on the first \$18,650 and 15% thereafter.

## State Tax - .49 – 2.99%

\$311 for the first 21,100 earned and 2.99% thereafter


## Local Tax – 2.25%

The city of Akron charges a flat tax for every dollar earned.

## Tax Forms

### W-2 form

Reports your payroll wages along with the deductions that have been withdrawn through the year.

a Employee's social security number 123-45-6789		Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile				
b Employer identification number (EIN) 11-2233445		1 Wages, tips, other compensation 48,500.00	2 Federal income tax withheld 6,835.00			
c Employer's name, address, and ZIP code The Big Company 123 Main Street Anywhere, PA 12345		3 Social security wages 50,000.00	4 Social security tax withheld 3,100.00			
		5 Medicare wages and tips 50,000.00	6 Medicare tax withheld 725.00			
		7 Social security tips	8 Allocated tips			
d Control number A1B2		9	10 Dependent care benefits			
e Employee's first name and initial Last name Jane A DOE 123 Elm Street Anywhere Else, PA 23456		11 Nonqualified plans	12a See instructions for box 12 D 1,500.00			
		13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b DD 1,000.00			
		14 Other	12c P 4,800.00			
		12d				
f Employee's address and ZIP code						
15 State PA	Employer's state ID number 1235	16 State wages, tips, etc. 50,000	17 State income tax 1,535	18 Local wages, tips, etc. 50,000	19 Local income tax 750	20 Locality name MU

Form **W-2** Wage and Tax  
Statement

2014

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.

## 1040 EZ Form

One of 3 tax forms used by the IRS. If you have no children, filing as single or married, and make less than \$100,000 a year, you most likely will use this form.

In our seminar course, we walk you through this form but it's pretty self-explanatory. You want to input the information from the W-2 form above.

You should have no problem filling this out yourself but if you don't want to familiarize yourself with it, there are plenty of tax services like HR Block and Liberty Taxes that will do it for you for a small fee.

If you are under 65 and earn less than \$10,350, you do not have to file.

Department of the Treasury—Internal Revenue Service <b>Income Tax Return for Single and Joint Filers With No Dependents (99) 2012</b> <small>OMB No. 1545-0074</small>			
<b>Form 1040EZ</b>			
Your first name and initial		Last name	
If a joint return, spouse's first name and initial		Last name	
Home address (number and street). If you have a P.O. box, see instructions.		Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		<b>Make sure the SSN(s) above are correct.</b> Your social security number Spouse's social security number	
Foreign country name		Foreign province/state/country	Foreign postal code
		<b>Presidential Election Campaign</b> Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Check only if you believe it will change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
<b>Income</b>  Attach Form(s) W-2 here.  Enclose, but do not attach, any payment.	1 Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.		1
	2 Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.		2
	3 Unemployment compensation and Alaska Permanent Fund dividends (see instructions).		3
	4 Add lines 1, 2, and 3. This is your <b>adjusted gross income</b> .		4
	5 If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back. <input type="checkbox"/> You <input type="checkbox"/> Spouse If no one can claim you (or your spouse if a joint return), enter \$9,750 if <b>single</b> ; \$19,500 if <b>married filing jointly</b> . See back for explanation.		5
	6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your <b>taxable income</b> .		6
<b>Payments, Credits, and Tax</b>	7 Federal income tax withheld from Form(s) W-2 and 1099.		7
	8a <b>Earned income credit (EIC)</b> (see instructions).		8a
	b Nontaxable combat pay election. Sb		
	9 Add lines 7 and 8a. These are your <b>total payments and credits</b> .		9
10 Tax. Use the amount on line 6 above to find your tax in the tax table in the instructions. Then, enter the tax from the table on this line.		10	
<b>Refund</b>  Have it directly deposited! See instructions and fill in 11b, 11c, and 11d or Form 8888.	11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your <b>refund</b> . If Form 8888 is attached, check here <input type="checkbox"/>		11a
	b Routing number <input type="text"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
	d Account number <input type="text"/>		
12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you <b>owe</b> . For details on how to pay, see instructions.		12	
<b>Third Party Designee</b> Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No			
Designee's name		Phone no.	Personal identification number (PIN)
<b>Sign Here</b> Under penalties of perjury, I declare that I have examined this return and, to the best of my knowledge and belief, it is true, correct, and accurately sets all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.			
Your signature		Date	Your occupation
Spouse's signature. If a joint return, both must sign.		Date	Spouse's occupation
If the IRS sent you an Identity Protection PIN, enter it here (see instructions)		Daytime phone number	
<b>Paid Preparer Use Only</b> Print/Type preparer's name Preparer's signature Date Firm's name Firm's address		Check <input type="checkbox"/> if self-employed PTIN	
Firm's EIN		Phone no.	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see instructions.

Cat. No. 11329W

Form **1040EZ** (2012)



## Chapter Five

### Step Three to Homeownership: **Tapping into the Great Equalizer between Rich and Poor**

#### *Understanding Credit and how to build it*

It is a common misconception amongst poor people that credit cards and the use of credit is somehow inherently bad or evil. I submit to you that this notion is completely false.

What is true is that the misuse of credit can really put you in a bind. We all know someone who has built credit card debt they couldn't pay off, and at 18% interest, that debt just kept growing into a financial death spiral. Such misuses of credit amongst the poor has led to the school of thought that it's better to avoid credit altogether and pay

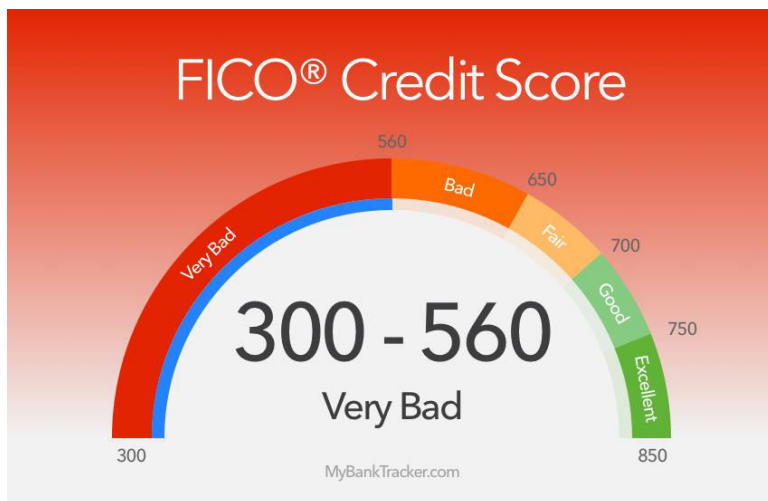
cash for everything. I'm here to tell you: That kind of thinking is sure to hold you back.

A wise and wealthy man once told me that the measure of a man was not how much money he had, but in how much he could borrow! He knew the secret. You see, they always told you, "It takes money to make money." What they didn't tell you was... it doesn't have to be your money. Developing good credit will allow you to open the bank vaults and to take advantage of other people's money.

### **Credit Defined**

Simply defined, Credit is the ability of a customer to obtain goods or services before payment based on the trust that the payment will be made in the future. In other words, if you can be trusted to pay, you are said to have good credit.

In the financial world, your trustworthiness is measured by a credit score, often called a FICO score.



Your score can range from 300-850. 700 is considered good.

### **Your goals: 580 and 640**

For our purposes, our goal will be to get to a 580 score and then ultimately up to 640.

Why? Because these are the scores that the banks require to grant an FHA loan. 580 will do it, but 640 makes it a chip shot. Notice that neither of these scores are considered all that great on the chart and with a little care, we should be able to get you there in 6 months or less, starting from almost anywhere!

### **Credit Bureaus**

Your credit score comes from 3 different bureaus that monitor your credit and keep track of all your “sins”. The names of these bureaus are:



These bureaus track data that is reported to them by your creditors. Creditors may or may not report to all bureaus,

which often accounts for the difference in the scores reported. And some creditors don't report at all. If you are trying to build good credit with on-time payments, make sure they report to at least one of the bureaus.

Although the bureaus do their best to track your credit activity accurately, they do make mistakes from time to time. When this happens, you can dispute the false claims and get them reversed. More on this later.

Credit Activities commonly tracked:

1. Credit cards and store cards
2. Cell phone payments
3. Student loan payments
4. Car loan payments
5. Home loan payments
6. Collections like unpaid medical bills
7. Evictions
8. Foreclosures
9. Bankruptcies

## **Credit Do's and Don'ts**

### **DO's**

1. Do get a Secured Credit Card  
If you are just getting started building or repairing your credit, you can get a secured card at your bank where you have your checking account. You can also get one online. This is the easiest card to get because it comes with a security deposit that covers most of the credit. After a year of good use, the deposit is returned to you.
2. Do get a Store Credit Card



Store cards such as gas cards are usually easier to get than department store credit cards because the vendor wants you to buy their products. Use these cards responsibly, buying only the things you need and would normally buy, and be sure you have enough money saved to pay the balance at the end of the month.

3. Do get a Credit Card

In fact, ultimately you'll want two or three. Start with one and when you get it try not to use more than 25 - 50% of the available credit limit they assign to you. The lower the better. I know this may sound silly. It sounds like I'm telling you to go out and get a bunch of credit and then barely use it, right? Well, that's exactly what I'm telling you! The bureaus want to see that you have lots of access to credit but don't need it.

It's a befuddling and almost disturbing fact of life, but the people that banks really want to lend to are the people that don't need money. Using a small portion of your available limit, clearly says, "I don't need the money." And it will make your credit grow quickly. In fact you can expect your credit card company to raise your limit every 3-4 months if you keep your usage low.

Good cards to start with are Capital One and cards that have low limits and charge a small fee. One of my first ones was Credit One. They charged a fee but they offered free credit monitoring along with the card.

4. Do have yourself Added to Someone Else's Card

If you know someone with good credit that trusts you, they can add you to their credit card and you will get some credit for their good habits and credit history.

5. Do get a Car Loan

Even if it's a Buy Here/Pay Here loan! That's right, I said it. Making on-time payments on an installment loan helps your credit so much that it may be worth it to bite the bullet on one of these tough loans. If you do, here's a few rules:

- A) Borrow as little as possible
- B) Pay it off as soon as possible
- C) Make sure they report to the credit bureaus and make them prove it. If you are going to pay 25% interest, you want to make sure you're getting credit for it.

Another way to go is to get a co-signer on a bigger loan and follow the same rules. Car loans are the easiest loans to get and are a great way to build credit.

The one down side is that they count against your debt-to-income ratio. That is how much money you make versus how much you pay out every month. If you are planning to buy a home soon, you may want to postpone the car loan. We'll discuss this in more detail in the next chapter.



Get this secured card with \$49 refundable deposit.  
5 ON TIME payments = Raise your \$200 limit.

### **CREDIT DON'Ts**

1. Don't Make Late Payments

The credit bureaus only measure late payments in 30-day increments. Therefore, they only show when you are 30,60, and 90 days late.

It's very important to understand that no one will hold it against you if you are a few days or even a few weeks late. Just NEVER BE 30 DAYS LATE!

2. Don't Use More Than 25-50% of your available credit balance

Credit cards can help your score greatly but they can also hurt your score if you max them out. Even if you pay them off in 30 days like you're supposed to. Use as little as possible and never more than 50%.

3. Don't let accounts Go to Collection

Once you are 90 days late, most creditors will refer the matter to a debt collection agency that will hound you for payment. When this happens the account is considered a charge-off and listed as a debt. A lot of lenders will not give you a loan until these are paid off. The best time to fix the problem is now. Negotiate a payment plan with the collection agency when they call or you call them. You can almost always negotiate a reduced amount and sometimes a lot less if you settle up in full.

4. Don't get Judgments on your Record

Anytime you have to go to court, the credit bureaus track it and it hurts your credit. Evictions are something I commonly run into as a landlord. These will not only hurt your credit but will also stop you from renting a decent place. My company will usually consider someone with an eviction but never without a bigger down payment.

5. Avoid having your Credit Report Pulled when possible

There are 2 kinds of credit pulls: a soft pull, and a hard pull. A soft pull is when you pull your own credit report to monitor your progress. This is a good thing. A hard pull is when you are applying for credit and a vendor pulls your credit report. This is tracked by the bureaus and it hurts your score.

Why? Go back to the rule about banks only wanting to lend to people who don't need money. Applying for credit shows you need it. Doesn't seem fair, does it?

Trans Union Canada, Inc. Consumer Credit Report										Date 01 May 2002
<b>1</b>	<b>Subject</b> <b>Spouse</b> <b>AKA</b> <b>To/From/1994</b>	<b>Surname</b> Consumer Consumer Last Inq 01May2002	<b>Given Name(s)</b> Robert/B Jane/B Brian/Robert	<b>Soc. Ins. No.</b> ### ## # ### ## # ### ## #	<b>Birth</b> 11Oct1958 22Jan1963	<b>Telephone</b> 4165551212	<b>Prev Phone</b> 9055551212			
<b>RESIDENCE(S)</b>		<b>City</b> Anytown Newtown	<b>Prov</b> ON ON	<b>Postal</b> M1M 1M1 L1L 1L1	<b>Since</b> 01Dec1994 01Jul1990	<b>Cnfrm</b> 01Nov1990 01Apr1994				
<b>EMPLOYMENT(S)</b>		<b>Employer's Name &amp; Address</b> National Steel Car Oakville ON Spouse's Employer Henry's Hot Dogs/111 Nathan St, Toronto			<b>Occupation</b> Welder Cashier	<b>Since</b> 01Nov1990 01Dec1992	<b>Cnfrm</b> 01Aug1998 01Jul1993			
<b>FLEET SUMMARY</b>		BkPr=1-Dec1997 Coll=2-Mar2001 Inqs=2-May2002 6Mnth=1 Colling=0 High=\$9500 Bal=53310 Pdue=30 Paym=\$310 Act=3 Neg=2 Paid=1 Trade-Jul1994/May1998 Balances Inst-\$2500 Rev=\$858 Open=0 Mort=30 #Reg=1								
<b>MESSAGES</b>		<b>*Tense Alert**</b> INPUT DOB DOES NOT MATCH FILE DOB <b>**Hawk Alert**</b> INPUT SUBJECT SIN IS INVALID								
<b>BUREAU RISK SCORE</b>		<b>Empirica: 618 **ALERT**</b>								
<b>Factors</b>		38 Serious delinquency AND derogatory public record or collection filed 15 Lack of recent bankcard account information 12 Frequent delinquency 12 Length of time revolving/open accounts have been established								
<b>Hazcon 651 **ALERT**</b>		38 Serious delinquency, and public record or collection filed 23 Length of time since derogatory public record or collection filed 10 Lack of recent revolving account information 18 Number of accounts with delinquency								
<b>TransRisk</b> (optional) <b>RPM</b> (optional)										
<b>5 TRADE</b>										
<b>Rept</b> Sep1998	<b>Open</b> DEPARTMENT STORE Apr1995 Sep1998	<b>Last</b> INCL IN BANKRUPTCY OIL COMPANY Jul1994 Jul1999	<b>H. Credit</b>	<b>Balance</b> 1000 958 0	<b>PastDue</b> 0 0/M	<b>Terms</b> 0 0/M	<b>Payment Pattern</b> 30/60/90/M 99999954321111111111	<b>MOP</b> R9		
<b>QC</b> Jun1994	<b>THIRD PARTY COLLECTIONS</b> CANADIAN BANC \$55551212 May1998 May2002	<b>JOINT</b>	<b>1000 0</b>	<b>0 0/M</b>	<b>99999954321111111111</b>	<b>1 1 7 00</b>	<b>O9</b>			
<b>BB</b> May2002	<b>11111111111XXXXX11111</b> 0 0 0 48		<b>7500 2352</b>	<b>0 310/M</b>	<b>11111111111XXXXX11111</b>	<b>I1</b>				
<b>BB</b> May2002	<b>11111211XXXXXXXXXXXXXXX</b> JOINT	<b>175000 135000</b>	<b>0 870/M</b>	<b>M1</b>						
<b>6 REGISTERED ITEMS</b>										
<b>Reptd</b> Jan1998	<b>Open</b> NATIONAL BANK Jan1998 Dec2001	<b>Matur</b> STREET E. MISSISSAUGA, ON	<b>Amount</b> 1000	<b>Pastdue</b> 0	<b>Terms</b> Trade	<b>Security</b> A E				
<b>7 BANKRUPTCY</b>										
<b>Revd</b> Nov1998	<b>Reptd</b> Dec1997	<b>Trustee</b> BURT HOWE HOWE & ASSOCIATES 12 MAIN ST., HAMILTON Court 12345	<b>Assets</b> 500 DISCHARGED Sep1998	<b>Liab</b> 75250						
<b>8 LEGAL ITEMS</b>										
<b>Revd</b> Sep1999	<b>Reptd</b> Jan1999	<b>Plaintiff's Name</b> AB	<b>Amount</b> 1500	<b>Balance</b> 0						
<b>9 COLLECTIONS</b>										
<b>Revd</b> Sep1999	<b>Reptd</b> July1999	<b>Agency/Creditor's Name</b> GAS COMPANY	<b>Amount</b> 57 PAID Sep1999	<b>Balance</b> 0						
<b>Sep2001</b>	<b>Mar2001</b>	<b>CABLE COMPANY</b>	<b>404</b> STILL OWING Sep2001	<b>404</b>						
<b>10 INQUIRIES</b>										
<b>23 Nov1999</b>	<b>BB</b>	<b>Credit Grantor</b> DC Department Store	<b>4035551212</b>							
<b>25 Oct1999</b>	<b>BB</b>	<b>4035551212</b>								
<b>11 REMARKS</b>										
<b>Date</b> 30Dec1997	CONFIRMED VICTIM STATEMENT #BXK Confirmed fraud victim; before extending credit verify all applicant information. Contact me for verification at home: (XXX)XXX-XXXX or work: (XXX)XXX-XXXX. Dated XXXXXXX									

This completes the report.

## How to Pull your Own Credit

There are many free websites that allow you to pull your own credit. Included in these are the actual bureaus themselves who allow you one free pull per year. Here are a few of those websites:

[www.experian.com](http://www.experian.com)  
[www.transunion.com](http://www.transunion.com)  
[www.equifax.com](http://www.equifax.com)

[www.freeannualcreditreport.com](http://www.freeannualcreditreport.com)  
[www.creditchecktotal.com](http://www.creditchecktotal.com)

The last two listed pull credit scores from all 3 of the bureaus. This is called a Tri-merge and is required for FHA loans. Your middle score is the one they ultimately use to determine your loan eligibility.

Another site I like that only pulls from 2 of the bureaus is called [www.Creditkarma.com](http://www.Creditkarma.com). I like them because they also offer free credit monitoring.

Whatever site you choose will be easy to use. Just fill in your information and check it out.

### **How to Dispute Errors on your Report**

Although the credit bureaus are dedicated to tracking your credit accurately, they do make mistakes and so do the creditors who report to them.

When this happens you can dispute the error online by going directly to the reporting bureau's website and identifying which items are in error. When you do this, they will notify the creditor who will be required to prove the claim. If they cannot prove within 30 days, the bureau will remove the blemish from your credit report. This is fairly common.

If you hate details as much as I do, you can hire a credit repair company to do this for you. I have seen people have their scores jump by 100 points in a month when these companies start disputing errors. However, there are a lot of credit repair companies that are focused more on taking your money than helping you repair your credit.

I have been told by my FHA broker that Credit Repair Resources are the real deal. Reach Chad Kushner or Bob Willis at 216-591-1000.

## Chapter Six

### Step Four to Homeownership:

### **Opening the Bank Vaults**

*How to get a bank loan for sure*

**With an FHA or NACA loan one of these Akron homes could have been yours. All sold in 2016 and 2017.**







**1677 Marigold. Firestone Park. 3 bedrooms, 1058 sf.**

**Sold \$40,000**

<b>Mortgage at 4.25%:</b>	<b>\$197</b>
<b>Taxes:</b>	<b>\$96</b>
<b>House Insurance:</b>	<b>\$50</b>
<b><u>Mortgage Insurance:</u></b>	<b><u>\$28</u></b>
<b>Total Payment:</b>	<b>\$371</b>



**542 Boyd. Ellet. 3 bedrooms, 1221 sf .**

**Sold \$35,000**

<b>Mortgage at 4.25%:</b>	<b>\$172</b>
<b>Taxes:</b>	<b>\$122</b>
<b>House Insurance:</b>	<b>\$ 50</b>
<b><u>Mortgage Insurance:</u></b>	<b><u>\$ 25</u></b>
<b>Total Payment:</b>	<b>\$369</b>



**1178 Florida Ave. Kenmore. 3 bedrooms, 1176 sf.**

**Sold \$25,000**

**Mortgage at 4.25%:\$123**

**Taxes: \$ 99**

**House Insurance: \$ 50**

**Mortgage Insurance: \$ 18**

**Total Payment: \$290**



**400 Sumatra. Goodyear Heights. 3 beds, 1085 sf.**

**Sold \$34,500**

**Mortgage at 4.25%:\$172**

**Taxes: \$122**

**House Insurance: \$ 50**

**Mortgage Insurance: \$ 25**

**Total Payment: \$369**

So, what if I could save you \$300 - \$400 a month on your rent and put \$20,000 in your bank account? Would that make you happy?

And what if I told you that in 15-30 years you could pay no rent at all and own your own home free and clear? Would you like me then?

I already know the answer because for the last 18 years of my life I've been doing just that. Turning renters into homeowners.

Now, I could tell you that makes me proud and makes me feel good about being me, but that would be an understatement. Truth is that seeing that “look” in someone’s eyes when they realize that one of my beautiful homes can truly be theirs is such a great feeling, it caused me to start this course so I could see it more often.

The simple rules I am about to outline here have the power to make your life better. So sharpen your pencils and take good notes.



### **What is the FHA?**

FHA stands for Federal Housing Administration. It is a government-run organization set up to insure mortgage loans. By charging mortgage insurance they are able to guarantee a bank’s loan to you and make it less risky for the bank. This enables the banks to make more loans.

FHA's motivation is to make it easier for people to become homeowners because it's good for the economy.

## **2 Main Considerations for FHA Loan**

1. Credit
2. Debt to Income

### **What is a Debt-to-Income Ratio?**

This is simply how much money you have to pay out each month versus how much money you make (gross) each month. Your DTI Ratio is expressed as a percentage.

Example

Gross Income = 2000 month

Debt = 1000

Debt to Income Ratio = 50%

FHA has 2 levels of Debt to Income they will allow based on how good your credit score.

If you have a credit score between 580 and 639, they will allow you to have 43% Debt to income.

If your score is 640 or above they will allow for 56% debt-to-income ratio. So, in our above example, if a borrower grossed \$2,000 a month, they could afford total payments of up to \$1,120 a month.

Gross Income = 2000 month

Allowable DTI = 56%

$2000 \times .56 = 1,120$



### **What Debt is included in the DTI calculation?**

Mortgage

Property taxes

Insurance

Car loan

School loan

Any collections over \$2,000. (5% of that overage per month)

Other long-term debts that you pay on every month. This does not include revolving debt like credit cards that should be paid off in full every month.

### **Requirements for each Credit Level**

#### **Credit Score 640 and up**

This is about the easiest loan in the world to get and one of the best with rates as low as 4%. With just a modest 640 score you will need:

1. No more than 56% debt to gross income
2. 3.5% of the purchase price down. This money can be a gift from a loved one.
3. \$400 for an appraisal.

## **Credit Score 580 plus**

The rates here are going to be slightly higher and the requirements are a little tougher. You will need:

1. No more than 43% debt to gross income
2. Verification of rent payments for last 12 months (with cancelled checks – not receipts)
3. One month reserve payment in your bank account at closing.
4. 3.5% down. This can be gifted to you.
5. \$400 for appraisal
6. No more than 2 late payments on your credit in the last 2 years or none in the last 12 months.

Remember a payment is only considered late if it's more than 30 days late.

## **Things that can Stop You**

1. Bankruptcies – Require 2 years from discharge before you are eligible.
2. Foreclosures – Require 3 years from date that the deed transfers back to the bank.
3. Collections beyond \$2,000 are added into your DTI. 5% of anything over that goes toward the debt payments. (Medical debt is not counted against you)

## **Mortgage Insurance**

The FHA is able to make these loans easy to get by guaranteeing them with the bank. If you default (don't pay) on your loan, FHA will pay the bank what you owe. To pay for those losses, FHA charges you for mortgage insurance, called PMI.

How much does the PMI cost?



The FHA charges 1.75% of the total loan amount, which is rolled into the loan, and .0085 of the loan amount each year. You pay this portion in your monthly payment.

To figure out how much your PMI will be monthly, multiply .0085 x loan amount and divide by 12.

Ex. \$40,000 loan

$\$40,000 \times .0085 = \$340 \text{ per year} / 12 = \$28.33 \text{ a month}$

You would pay that amount on top of your principle and interest.



### **30-Year vs. 15-Year Loans**

These are the two standard terms for an FHA loan. If you choose the 15-year loan, they will charge you a slightly lower interest rate, but your payment will be higher. What's interesting is that the payment really isn't much higher. Consider:

\$40,000 loan at 4.25% interest (principle and interest)  
30 year = \$197 a month  
15 year = \$301 a month

So, an extra \$104 a month pays the loan off in half the time. Of course you have to put the taxes and insurance into the equation to get the total payment but those amounts don't change.

It's important to note that even if you choose the 30-year loan, you can pay the extra \$104 a month and it will still pay the loan off in 15 years. Choosing the 15 year loan will lower the rate slightly but you may want the option of making the lower payment in a pinch.



### **Where can you get an FHA Loan?**

Almost every bank in America can help guide you to an FHA loan. Or you can call a private mortgage broker. You are likely to get more guidance from them because they are only paid when you succeed. And the best part is that their guidance is completely free. FHA pays them.

Naturally, I have a guy we keep very busy who is an absolute expert in these matters. Call him at your convenience.

**James Zettlemeyer, Great Lakes Mortgage Group - 216-464-2625**

### **NACA Home Loans**

NACA is a HUD certified non-profit whose mission is to bring economic justice to poor and working class folks with low interest home loans. They offer the lowest rates in America and counsel folks with challenged credit for free.

#### **NACA Loan Features:**

1. Low Rates - 3.13% for 15 year loans and 3.63% for 30 years
2. No Down Payment
3. No Closing Costs
4. No Points or Fees
5. No minimum credit score (as long as you are paying your bills on time.)
6. No PMI (Mortgage Insurance)
7. The ability to buy your rates down by putting 1% down on the loan.

If this sounds like a dream come true, maybe it is. NACA holds monthly seminars to explain their program and get you enrolled. From there they assign a personal advisor who meets with you one-on-one and counsels you until you get your loan.

Call now to get enrolled in their next seminar at **216-619-4110** or learn more online at **[www.Naca.com](http://www.Naca.com)**.



## Chapter Seven

### **Financial Secrets that should Not be a Secret**

*What the rich teach their children that no one is teaching us!*

While most of us work very hard for our money and often live from paycheck to paycheck, the rich know that the secret to financial freedom is not to work for your money but to have your money work for you.

You've probably heard this said, but what does it mean and how does one do such a thing? That's what this final chapter is about. Our goal is not to give you a blue-print to wealth but merely to familiarize you with a world that very few inner-city kids like me understand.

With all the humblest of intentions just to acquaint you with the basics, I would like to start by revealing the secret to becoming rich!

This secret is at the core of every fortune ever made and celebrated in every country club in America on any given weekend. The secret, my friends, is to buy assets. Buy assets and avoid liabilities. That's it.

### **What is an Asset?**

An asset is anything that makes you money or saves you money. The opposite is a liability, which is something that costs you money. Your financial goal is to cut out as many liabilities as you can and use that money to buy more assets, which will increase your wealth.

### **Examples of Assets:**

Stocks  
Bonds  
Mutual Funds  
Treasury bills  
Real estate  
Tools  
Office equipment  
401k (retirement account)

All of these things will make you money and earn you a return on your money. Assets are measured by their return on investment, or ROI.



### **What is ROI?**

ROI stands for return on investment and is measured in percentages usually over a one-year period.

#### **Example**

If you bought \$1,000 of stocks and earned \$100 by year's end, your annual ROI would be 10%.

$$\$1,000 / \$100 = 10\%$$

#### **Example 2**

If you invested \$1,000 and had a 20% ROI, your money at year's end would be worth \$1,200.

$$\$1,000 \times .20 = \$200 \text{ earned that year}$$

$$\$1,000 + \$200 = \$1,200 \text{ current value}$$

## **Investments and likely ROI**

Why do I say likely ROI? Because most investments are not guaranteed. Most of them carry some risk with them and in extreme cases investors can lose all their money. Below is a list of investments. Notice that the safer ones pay less.

### CD's 1%

These are like savings accounts that you agree to leave in the bank for a set amount of time. The only risk here is early withdrawal that will cost you just a little.

### Bonds 2-5%

Bonds are essentially loans to a business or government. They have a set time when they mature and can be cashed. They can also be traded on the NYSE in the meantime. Bonds are considered very safe as long as the institution doesn't go out of business.

### Stocks 2-15%

Stocks are actual shares of ownership in a Corporation. If a company goes bankrupt your stock could be worth nothing. If the company does exceptionally well, your stock could double. Stocks can be fairly risky depending on the company you are buying. Companies that have been around for a long time like IBM or Apple are considered "blue chip" stocks and are safe. New startup companies, on the other hand, can be very risky. Most investors are happy if their stocks earn 10% per annum (per year).

### Mutual Funds 8-10%

These are a blend of stocks, bonds, and other investments put together to offset or diversify risk. These funds are put together by different investment groups and professionally managed for you.

### 401k Retirement Account -10 – 100+%

These are accounts that you can contribute to before your money is taxed. So if you made \$30,000 this year and put \$5,000 into a 401k, you would only be taxed on \$25,000. This money could then be invested and grow tax-free until you take it out at retirement.

A lot of times an employer will match the money you put in dollar for dollar. So if you put \$1,000 in this year, they will put \$1,000 in. This essentially allows you to double your money immediately and then earn interest on that money.

If you decide to take the money out before retirement, you have to pay the taxes plus a 10% penalty. Additionally some companies may not let you take all of their money out until you have been with them for a few years. This is called vesting.



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**What would happen if you earned 20% ROI per year and left the money invested for 4 years at that rate?**



Example - \$1,000 invested at 20% ROI for 4 years:

Value at years end:

1.	\$1,200	$1000 \times .2$ (20%)
2.	\$1,440	$1200 \times .2 + 1200$
3.	\$1,728	$1440 \times .2 + 1440$
4.	<u>\$2,073</u>	$1728 \times .2 + 1728$

Notice that the money doubled over the course of 4 years. What do you think was easier to earn; the first \$1,000 or the second \$1,000?!!!!

Also notice that the 4<sup>th</sup> year earned \$345 return, up from \$200 the first year.

This model helps to demonstrate the concept of how money makes money that makes even more money on top of the “free” money earned. It’s hard to fathom just how fast it grows, especially when you are adding more and more to the pot as you make it.

Or maybe you think 20% is too much and too hard to attain? Most people would agree with you. But I would not. Let’s consider the sample house you bought in the last chapter.

## **The Power of One House as an Investment**

**1178 Florida Ave. Kenmore.**



**Purchase Price was \$25,000**

<b>Mortgage at 4.25%:</b>	<b>\$123</b>
<b>Taxes:</b>	<b>\$ 99</b>
<b>House Insurance:</b>	<b>\$ 50</b>
<b><u>Mortgage Insurance:</u></b>	<b><u>\$ 18</u></b>
<b>Total Payment:</b>	<b>\$290</b>

What if you decided to buy a second house for your family to live in and to rent this first one out. Here's what the ROI would look like

**\$25,000**      = Cost of the FHA purchased home

**\$1,800**      = Money invested at 3.5% down payment  
plus \$400 for appraisal

\$6,200	= Money invested to fix the house up (This is a likely amount for this house given condition at purchase)
\$8,000	= Total cash investment
\$290	= Monthly payment with taxes and insurance
\$750	= Monthly rent you could charge

To figure the annual ROI, we first need to figure out how much the investment would make:

\$750	Rent
<u>-\$295</u>	<u>Monthly mortgage w taxes and insurance</u>
\$365	Net profit per month
\$455	Net profit per month
<u>x 12</u>	<u>Months in a year</u>
\$5,460	Net profit per year at full occupancy

We then divide the annual profit by the total amount invested:

$$\$5,460 / \$8,000 = 68\% \text{ ROI}$$

Sound too good to be true? It's not. But it's good! In the next Building Wealth seminar, I'm going to show you how to turn \$2,000 into \$20,000 in 6 months... what's the annual ROI on that one? 😊

## **Closing Thoughts**

My father used to say, “The hardest part of making a million dollars is saving the first \$50,000”. He was absolutely right. The reason is that money absolutely makes money, especially if you know what to do with it and even if you don’t. Unfortunately, those first dollars are the hardest to save.

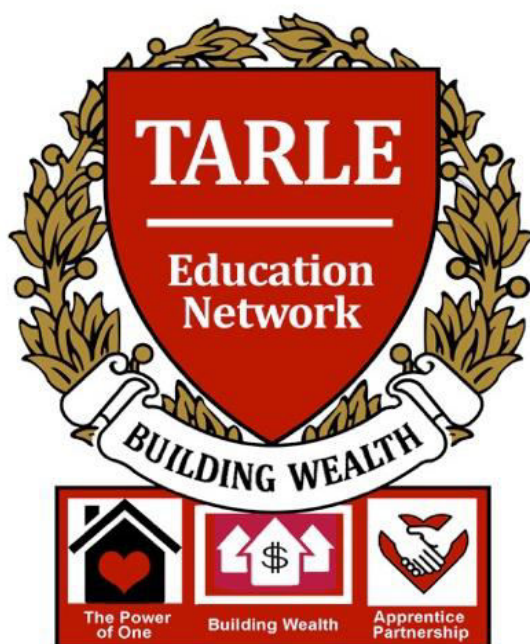
The trick is to live below your means, no matter how low your pay. You **MUST** save money. Even if it’s only \$25 a week. Even if you have to mow grass on the weekend.

Goal one is to save 3.5% of the purchase price of a home plus \$400 for the appraisal fee. Once you do that and buy your first home, everything will start to get easier. In the meantime, sacrifice is required.

With that said, I will leave you with my favorite saying, one I have held dear and lived by from all my days of rags to riches to rags to riches again...

Do what others **WON’T** do for just 3 years and for the rest of your life, you will do what others **CAN’T** do!

Good luck and God bless you!



To Enroll in the free Power of One seminar, taught every month in Akron, Ohio, call 330-794-5911.

