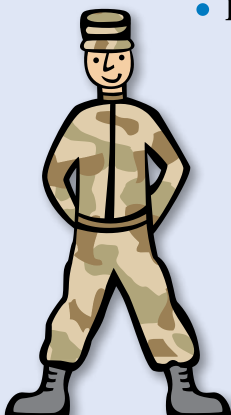
VETERANS HANDBOOK

- Financial Security



- Housing

VIRGINIA B. MORRIS AND KENNETH M. MORRIS

LIGHTBULB PRESS®

California Department of Business Oversight
Education and Outreach Program

DEPARTMENT *of*
BUSINESS OVERSIGHT
State of California · Business, Consumer Services and Housing Agency

About the DBO

The DBO regulates state-licensed financial institutions, products and professionals in order to provide accessibility to a fair and secure financial services marketplace.

The DBO serves the state by enforcing the state's financial service laws and providing resources to Californians to help them make informed financial decisions.

As part of its mission, the DBO strives to help consumers protect their personal finances from fraud.

For a list of licensees and industries regulated by DBO, visit **www.dbo.ca.gov**.

Consumer Services Office

The DBO's Consumer Services Office provides information and assistance to consumers. If you need help verifying the licensing status of a financial institution, service or professional call the DBO's toll-free number **1-866-275-2677** or visit **www.dbo.ca.gov/consumers** for help.

Office of Education and Outreach

The DBO's Office of Education and Outreach is committed to providing consumers with helpful information and materials on a variety of financial topics. The outreach programs empower Californians to make smart decisions about their finances.

This booklet's purpose is to help California's consumers understand the process of buying a home and some of the major responsibilities they will have as homeowners.

Informed and educated consumers are less likely to fall victim to financial fraud and scams.

DBO Outreach Programs

The Mortgage Education Outreach Program will expand consumer education and awareness in the areas of homeownership and the home buying process, preventing foreclosure, loan modifications, and mortgage fraud and scams.

Seniors Against Investment Fraud (SAIF)
Developed in 2001, the Seniors Against Investment Fraud (SAIF) Program alerts and educates California seniors about unscrupulous investment fraud. **The Protect Yourself from Fraud booklet** is designed to encourage Californians to "check before you invest" and provides tools to stop financial fraud before it happens.

California Troops Against Predatory Scams (TAP$)
This program alerts and educates California's military service members and their families about investment fraud, predatory lending and how to avoid being scammed.

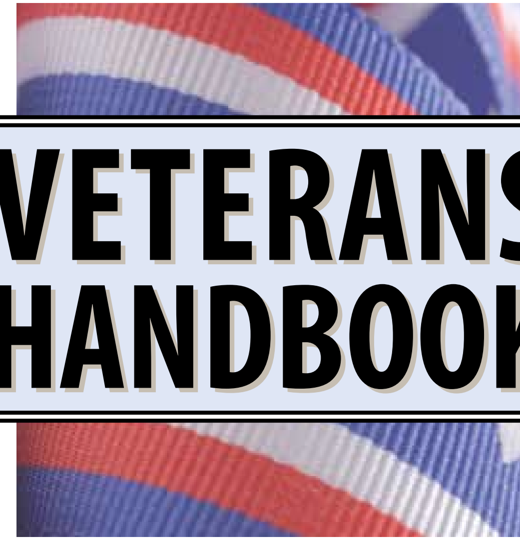
Help us protect Californians from unlicensed or fraudulent consumer transactions.

Do you think you have been a victim of fraud or a scam?

How to File a Complaint with the DBO

1 Download the complaint form from our website. For the fastest response, we recommend filing online. **www.dbo.ca.gov/consumers/consumer_services.asp**

2 Call us toll-free **1-866-275-2677** to have a complaint form mailed to you.



VETERANS HANDBOOK

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On Your Guard

A good defense can prevent unwanted surprises that separate you from your money.

Chances are you've made some mistakes with your money. Most people do. But you should also be prepared for a different set of financial mistakes: The ones that other people want you to make so they can profit from your loss.

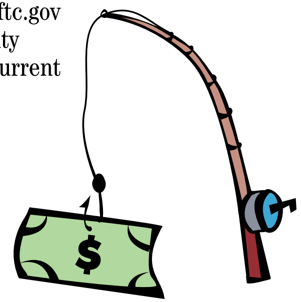
While veterans aren't the only ones who are targeted in financial scams, you need to be on your guard against people who praise your service to your country as a gambit to sell you a product or service that's not in your best interest.

HERE'S A DEAL FOR YOU

Con artists who want to get their hands on your money may offer "available only to veterans" deals that turn out to be pitches for phony vacation trips, over-priced electronic equipment, bargain tires, or a discounted rate for providing copies of your military records that you can get for free by requesting them yourself online.

The scams vary: What you think you're buying may never materialize, or, if it does, may be defective. Too often the fine print may reveal that you are paying far more than you realize, and far more than you should.

Be particularly suspicious of appeals to your generosity, especially requests for contributions to military-sounding charities. If you want to express your solidarity with older veterans, wounded warriors, or others who need your help, look for a legitimate organization that deserves your support. You can find ratings of various military charities at www.military-money-matters.com, www.charitynavigator.org, and www.charitywatch.org. You can log in to the Federal Trade Commission at www.ftc.gov and search for "charity scams" for articles, current alerts, and updates.



SPOOFING IS NO JOKE

Potentially more dangerous scams are those known as spoofing or phishing. In both cases, crooks try to get hold of your personal information. Once they have it, they can log in to your accounts or use your identity to obtain credit cards, open lines of credit, or get your tax refund, among other things. If you receive an email saying the VA needs to update your records or certify your eligibility, hit delete. Official requests are never made this way.

In one scam claiming to be from the Defense Finance and Accounting Service, disabled veterans were asked to send their VA award letter, tax returns, 1099-Rs, retiree account statement (RAS), and Form DD 214 to get a larger tax refund. You can just imagine how delighted con artists would be to get their hands on this type of information.

Similarly, be on your guard if you are encouraged by a "veterans benefits specialist" to transfer your veterans benefits to another person, such as an older relative or a child. It may be legal, but the benefits often end up invested in high-cost annuities with long surrender periods and large penalties if you want to change your mind. The person who benefits most from these scams is the salesperson.

CALL BEFORE YOU ACT

The bottom line is this: Before you act on any pitch, especially one linked to pension benefits, call the VA hotline at 877-294-6380. The more you're pressured to act quickly and not consult with anyone else, the more quickly you should call the hotline.

LOANS TO CONSIDER

If you need money to start a business, loans may be available through the Small Business Administration (SBA) Office of Veterans Business Development (www.sba.gov/vets), from your state's office of veterans affairs, and from some private-sector lenders, such as credit unions. As a veteran you have preference on loans or guarantees available from the US Department of Agriculture (USDA) for buying, improving, or renovating farm property.

AVOIDING BAD LOANS

There's nothing wrong with borrowing. In fact, timely loans make it possible to achieve some important goals, including buying a home or car or paying for college—things you couldn't ordinarily afford to pay out of your personal savings. Borrowing may also be helpful in other circumstances, such as when you're starting a new business, transitioning between jobs, or coping with unexpected expenses.

What you want to avoid are problem loans that cost much more than they're worth. For example, advance-fee loans, vehicle-title loans, and payday loans are promoted as providing immediate cash if you find yourself short, no credit check required. In reality, they're traps for extracting fees and finance charges that easily could drive you deeper into debt. Remember, as a veteran, you no longer enjoy the protection of the Federal Military Lending Act, which restricts some of the worst abuses of these predatory lenders.

Be wary of loan collectors who try to collect on debts you never incurred or those you have already paid off. Their tactics may be aggressive in the extreme. The Federal Trade Commission has a wealth of helpful information at www.consumer.ftc.gov. Almost as dangerous as outright scams are loan doctors who offer to fix your credit standing for a fee. You're throwing your money away.

INVESTOR BEWARE

One way to avoid investment fraud is to ignore any online or telephone pitches for can't-fail investments that promise big returns. But you also need to guard against legitimate but inappropriate investments, such as over-the-counter stocks and callable certificates of deposit, which are often served up at free-lunch investment seminars. One safe bet: Never buy any investment, especially one offering a high return, without fully understanding how it works and what its risks are.

Managing Money

To make smart financial decisions, you need to plan ahead.

If you and your family have a spending plan that's helped you to keep the bills paid and add money to your savings account on a regular basis, that plan should serve you well in civilian life. But you've probably discovered you're paying significantly more for some essential expenses, such as housing and healthcare, than you've been used to paying.

Since these added costs may put a strain on your finances, now may be a good time to review some basic principles of managing money. And if you're someone who hasn't gotten around to making a spending plan, or if the plans you've tried haven't worked out so well, this is the ideal time to make a fresh start.

CASH IN/CASH OUT

Monitoring your monthly cash flow is the first step in being an effective money manager. You need to know:

- How much income is coming in
- How much of that income you're spending
- How much, if anything, is left at the end of each pay period

If you regularly have money left in your checking account when your next paycheck arrives, you have a positive cash flow. This generally means things are moving in the right direction. But if you regularly run out of money even before paying all of your bills, you have a negative cash flow and could be headed for serious financial trouble.

TIP

Don't treat your spending plan as if it's written in stone and become so discouraged that you stop trying to make it work. It's smarter to think of the plan as a work in progress.

Either way, you can improve your cash flow by increasing your income—which may not be as easy as you'd like it to be—or by reducing your spending, or both. But first you have to know where your money is going.

KEEPING GOOD RECORDS

When you pay by check or debit card or use a credit card, figuring out your spending is relatively easy. All you need to track your expenses are the monthly statements from your credit union or bank and your credit card issuer.

It's harder, however, to keep track of the cash you take out of an ATM. One approach is to keep a daily spending record for a week or two, either by using an app on your phone or by recording expenses in a small notebook. What you discover may surprise—or shock—you.

When you have the numbers to work with, you can list your expenses by category. Online budget worksheets can be very helpful, including the one you can find at www.lightbulbpress.com/veterans/budgetworksheet.

Now comes the hard part: deciding where you can cut back and by how much. You'll discover that this is a process of trial and error. For example, you may underestimate what you'll spend on food and have to modify your plan or your grocery-shopping habits to make that number more realistic—though modifying the plan probably means cutting back on something else you'd really like to do or have.

GOODBYE TO SCRA

When you finish your active duty, some of the protections of the Servicemembers Civil Relief Act (SCRA), such as interest rate caps, eviction protection, and the ability to end car leases early may terminate, though others are extended for a time.

If you've taken advantage of any SCRA provisions, you'll want to find out when the protection ends and what your remaining obligations are to creditors, the courts, or other parties. You can begin by contacting an Armed Forces Legal Assistance Program office. You can find one that's convenient for you at legalassistance.law.af.mil/content/locator.php.

CHECK IT OUT

Checking and savings accounts are essential tools in successful money management. By linking your savings to your checking account you can authorize automatic transfers of a percentage of your pay to build your savings balance. In addition, direct deposit of your paycheck or other benefits and electronic bill payment can save you time and money.

You have a wide choice of federally insured credit unions and banks in civilian life, and you'll want to compare those you're considering on three criteria: cost, convenience, and service. The bottom line is that you want the most economical provider that offers the services you need. In an online environment, remember that physical proximity isn't always essential.

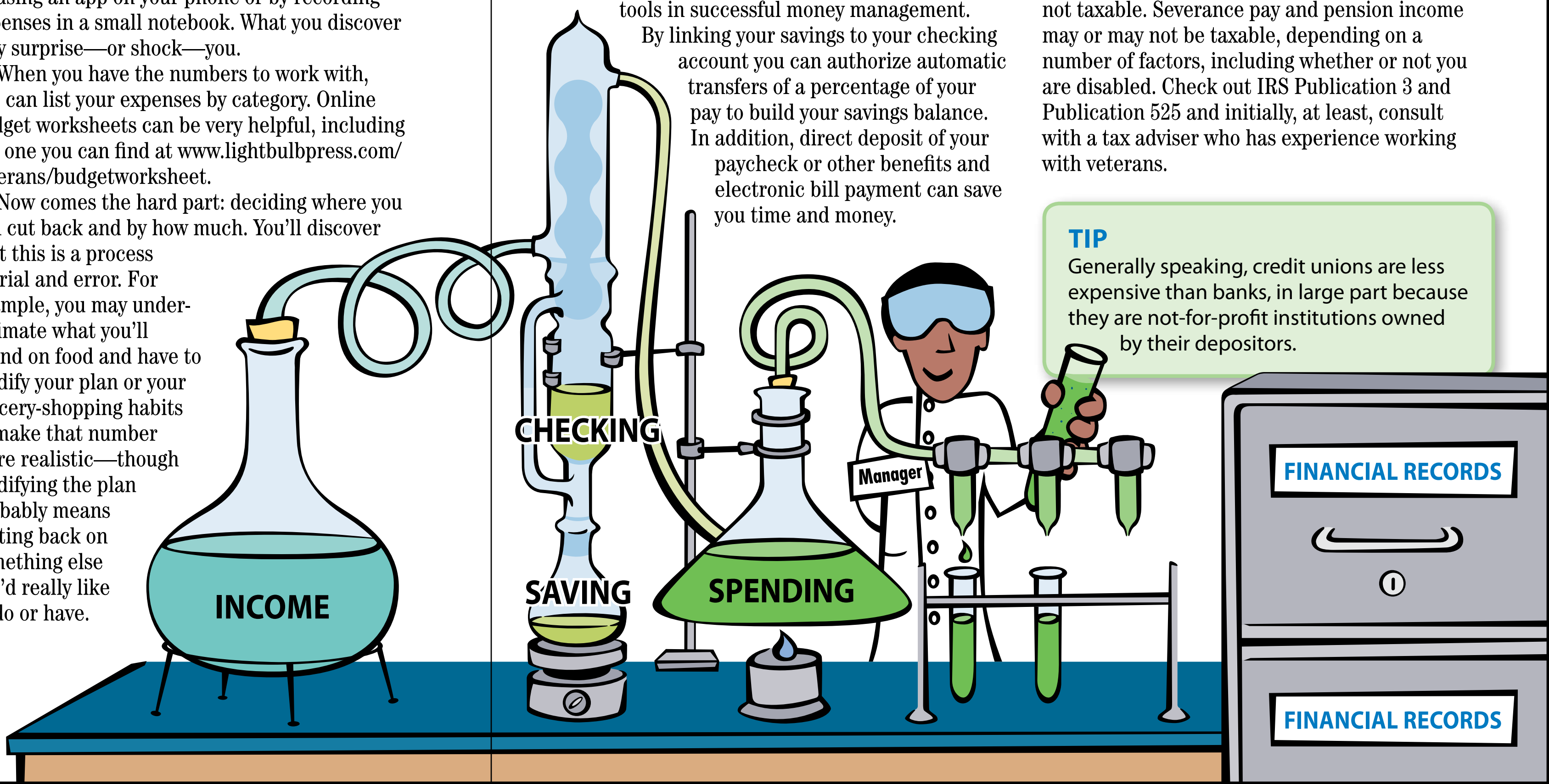
TAXING ISSUES

Preparing your income tax returns may also be more complicated than you might expect. Among other things, if you were posted to a combat zone during the year before you left the military, you may have tax-exempt as well as taxable income that must be reported differently. You may also qualify for education tax credits, childcare credits, the earned income tax credit, and other tax breaks.

If you're receiving VA benefits, most of them, including education and training allowances, are not taxable. Severance pay and pension income may or may not be taxable, depending on a number of factors, including whether or not you are disabled. Check out IRS Publication 3 and Publication 525 and initially, at least, consult with a tax adviser who has experience working with veterans.

TIP

Generally speaking, credit unions are less expensive than banks, in large part because they are not-for-profit institutions owned by their depositors.



Using Credit

Credit makes life easier, but it can be a trap.

There's a lot credit can do for you. In fact, access to credit can be a lifesaver. But credit makes spending easy, sometimes too easy. So you can find yourself in credit trouble if you're spending more than you can afford to repay.

MAKING CREDIT HISTORY

If you've ever had a loan or used a credit card, you have a credit report and a credit score. Here's how it works: Credit reporting agencies collect information from lenders and public records, summarize it into a report, and distill it into a score using a formula—often one developed by FICO®. A FICO score ranges from 300 to 850, with the average score around 730.

Your FICO score not only indicates how you've used credit in the past, but it helps to determine your access to future credit and what that credit will cost you. For example, repeatedly late or skipped credit payments could limit your ability to get a car or mortgage loan or increase the interest rate you'll have to pay if you are offered one.

If you are turned down for credit, or you're offered an APR that's higher than the best one the lender is advertising, you must be told which credit reporting agency's credit score the lender used and what your score was. The agency must also provide a free credit report if you request it.

AnnualCreditReport.com
The only source for your free credit reports. Authorized by federal law.

Everyone is entitled to one free credit report from each of the three major credit reporting agencies once every 12 months. To access your report, all you have to do is go to www.annualcreditreport.com and follow the directions. If you spread your requests over the year, asking for one report every four months, you'll always have a sense of where you stand.

Some banks and credit card companies will provide your credit score for free, but often there's a charge. If you're about to apply for a major loan, it might be worth paying to see your score. But first find out which score the lender uses and request that one. Scores vary among agencies, and may be calculated differently for different end users, such as lenders or employers.

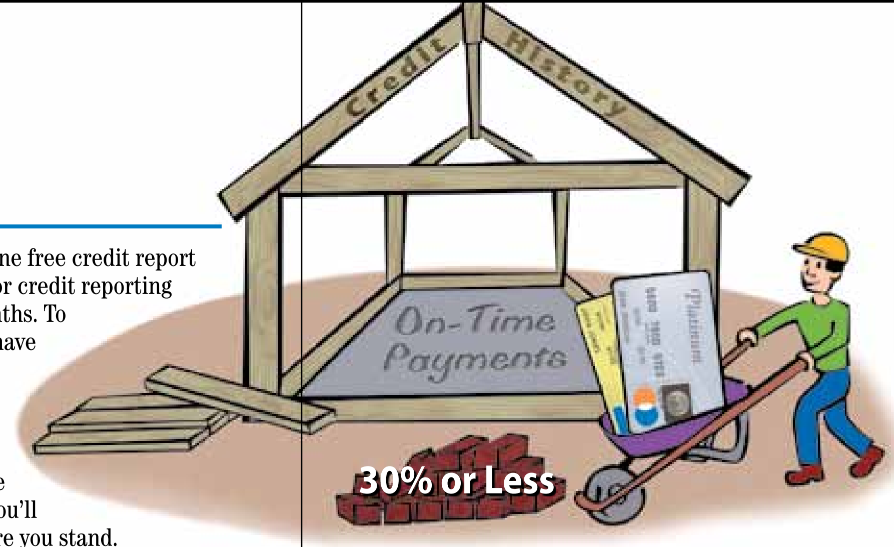
There's more information on scores and other aspects of credit at www.myfico.com.

BUILDING GOOD CREDIT

If you're building—or rebuilding—your credit history, there are some basic steps to follow:

- Find a good credit card and use it regularly, paying for your purchases on time—and in full, if possible—every billing period
- Use only a portion of your card's line of credit, ideally 30% or less
- Apply for a loan, perhaps to buy a car or pay for education not covered by your GI Bill, and repay the loan on time
- Restrict your applications for new credit, particularly new credit cards

There aren't any quick fixes if you have credit problems, but over time you can repair your history and make a good case to lenders that you're creditworthy.



CHOOSING A CREDIT CARD

Credit unions and banks issue credit cards that differ in a number of important ways:

- The annual percentage rate (APR), which determines the monthly finance charge on any unpaid balance

- Whether there is a grace period, which is the time between the date the card issuer sends you your new balance and the date your payment is due

- Whether there's an annual fee, which can vary significantly from one issuer to the next

As you weigh your options, you need to be realistic about your borrowing habits. If you're confident you'll always pay your outstanding balance in full and on time, a card with a grace period allows you to use credit while avoiding finance charges. However, if you generally carry a balance, you'll want a card with a low APR so that you'll be paying as little interest as possible.

It can be smart to use two credit cards, one with a low APR that you use only for major purchases that you'll pay off over time and another for purchases that you pay off in full.

TIP
If you're offered a free credit report and score anywhere but at www.annualcreditreport.com, don't believe it, even if it's from one of the same three agencies. There's a fee somewhere, often for a service you don't need, such as credit monitoring.

KEEPING CREDIT IN CHECK

While large outstanding loans can create credit problems, people are more likely to borrow too much using credit cards and repay too slowly, cutting into the money they have for other expenses.

To provide a wake-up call, credit card statements estimate the cost and the time it will take to pay off your outstanding balance over various time periods, assuming your payments arrive on time and you stop using the card.

If you're feeling the pinch of credit card debt, check out the repayment calculator at www.federalreserve.gov/creditcardcalculator to explore how you can reduce your costs by paying even a little more each month.

HELP WANTED

If you run into trouble with loans or credit cards, help is available. The VA's Debt Management Center can help you with debts you accrue using benefits the VA offers, like a mortgage loan guaranty. If you're struggling with federal student loan debt, you can probably switch your repayment plan and reduce your payments by contacting your loan servicer.

You can also find credit counseling through the National Foundation for Consumer Credit (www.nfcc.org) or the Association of Independent Consumer Credit Counseling Agencies (www.aiccca.org).

But anyone who tries to tell you there's a quick fix for credit problems isn't being honest. In fact, working with such people or companies is a waste of your time and money.

Buying a Home

A VA loan guaranty can provide the key to your new home.

One of the big decisions you make as a new veteran is where to live. If you're starting a new job or enrolling in school, you have a good sense of where you'll be. So the question is whether to rent or buy. Renting has some advantages, especially if you expect to move again within a few years. It's often cheaper, and you don't have to worry about finding a buyer when you're ready to move.

On the other hand, if you plan to settle in a community for the foreseeable future, buying could be a good decision for both financial and personal reasons. And, as a veteran, you can usually take advantage of the VA home loan program to help make buying more affordable.

HOW THE GUARANTY WORKS

The VA guaranty helps veterans and active duty servicemembers find mortgage loans by protecting lenders against the possibility a borrower will default. Specifically, the VA promises repayment of a minimum of 25% of the loan amount, with higher percentages covered for smaller loans.

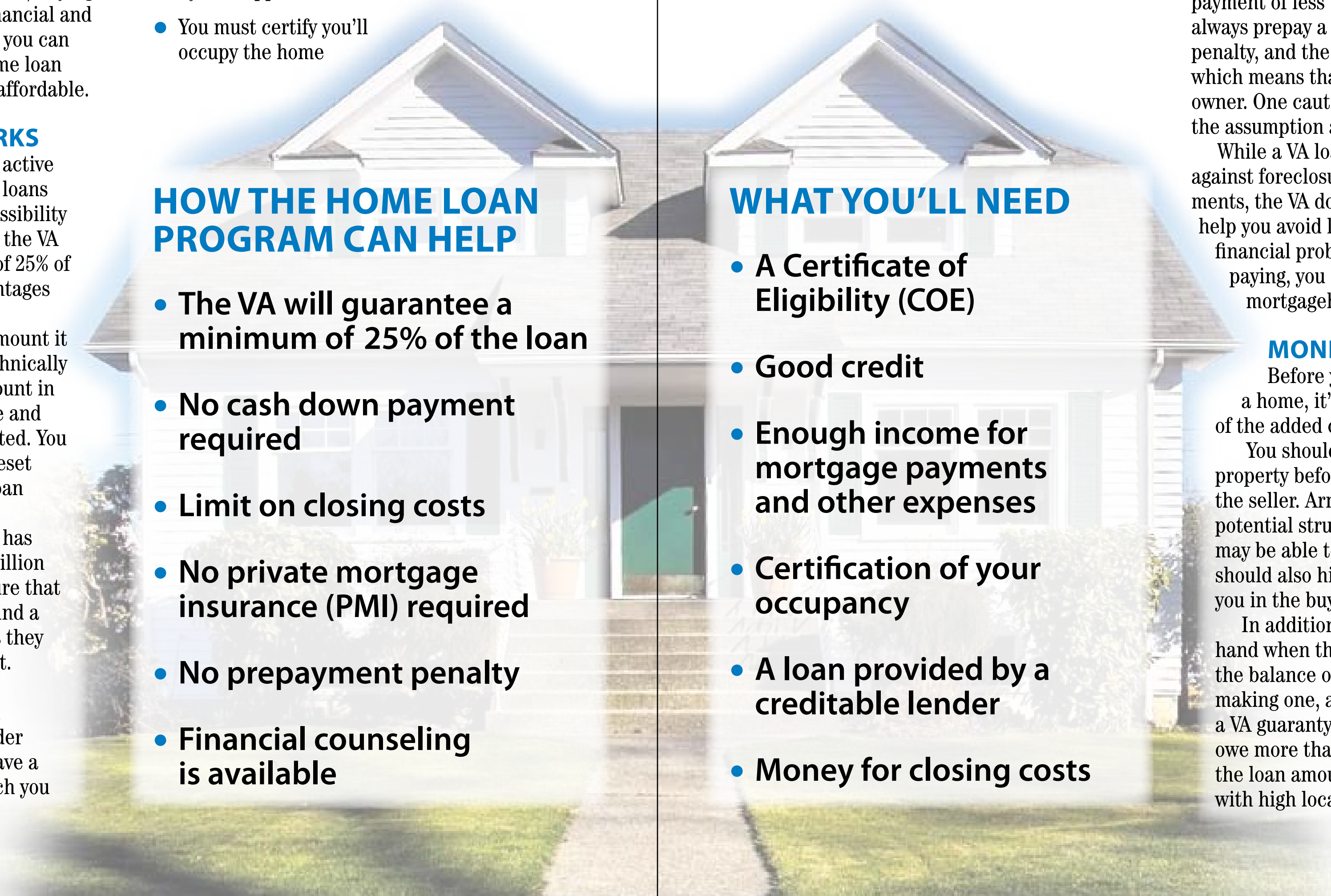
The VA sets a maximum on the amount it will guarantee on a loan, though technically not the amount of the loan. The amount in each case is determined by the state and county in which the property is located. You can find these caps, which may be reset annually, by searching for "county loan limits" at www.benefits.va.gov.

While the VA home loan program has made it possible for more than 19 million people to buy homes, it doesn't ensure that all eligible veterans will be able to find a mortgage loan or borrow as much as they need to buy the properties they want.

DOING YOUR HOMEWORK

To qualify for a VA loan guaranty under the home loan program, you must have a Certificate of Eligibility (COE), which you can obtain at www.ebenefits.va.gov, and meet certain other requirements:

- You must have good credit, as well as enough income to afford mortgage payments, maintain the property, and cover your needs and the needs of your family
- The purchase price can't be more than the appraised value of the home as determined by a VA appraiser
- You must certify you'll occupy the home



HOW THE HOME LOAN PROGRAM CAN HELP

- The VA will guarantee a minimum of 25% of the loan
- No cash down payment required
- Limit on closing costs
- No private mortgage insurance (PMI) required
- No prepayment penalty
- Financial counseling is available

ADVANTAGE: LOAN GUARANTY

One of the most appealing features of the VA home loan program is that you aren't required to make a cash down payment, which, with other loans, can be as much as 20% of the purchase price. This means you can borrow 100% of the value of the home plus the customary VA funding fee of 2.15% for first-time borrowers. (The fee is reduced if you make a down payment and may be waived if you are a disabled veteran.)

There are good reasons to make a down payment, if you can. Most important is that in reducing the amount you borrow, you reduce your borrowing costs and spend less on housing. Making a down payment may also reduce the loan you need to less than the amount the VA will guarantee in the area where you're buying.

Another plus with a VA guaranty is that you don't need private mortgage insurance (PMI), which is normally required if you make a down payment of less than 20%. In addition, you can always prepay a loan with a VA guaranty without penalty, and the loan itself may be assumable, which means that it can be transferred to a new owner. One caution, however: Be sure to have the assumption approved by the VA.

While a VA loan guaranty does not protect you against foreclosure if you can't make your payments, the VA does offer financial counseling to help you avoid losing your home if you're having financial problems. If you're having trouble paying, you can also logon to www.cfpb.gov/mortgagehelp or call 855-411-2372.

REFINANCING A LOAN

If you use the VA home loan program to refinance an existing mortgage to reduce the interest rate you're paying, your credit isn't rechecked and the only certification you're required to make is that you have occupied the property.

WHAT YOU'LL NEED

- A Certificate of Eligibility (COE)
- Good credit
- Enough income for mortgage payments and other expenses
- Certification of your occupancy
- A loan provided by a creditable lender
- Money for closing costs

MONEY MATTERS

Before you begin to search actively for a home, it's important to anticipate some of the added costs of buying.

You should pay for an inspection of the property before you sign a contract with the seller. Armed with information about potential structural and other problems, you may be able to negotiate a lower price. You should also hire an attorney to represent you in the buying process.

In addition, you'll need enough cash on hand when the purchase is finalized to pay the balance of your down payment, if you're making one, and other closing costs. Although a VA guaranty does limit closing costs, you may owe more than the national average of 2% of the loan amount if you're buying in an area with high local real estate taxes.

Shopping for a Loan

There's a reason that buying a home seems complicated. It is.

When you've decided to take advantage of the VA mortgage loan guaranty, the hard work begins. This includes finding:

- A home that meets your family's requirements and also the VA rule that the purchase price isn't higher than the home's appraised value
- A lender that offers you a competitive annual percentage rate (APR) that combines the interest rate, fees, and settlement costs

QUALIFYING TO BORROW

Potential lenders consider your credit report and score, your income and debt-to-income (DTI) ratio, and the collateral—in this case the home you're buying—in evaluating your loan application. DTI is a measure of your outstanding debt, including what you'll be paying for your home, in relation to your income. As a general rule, it is harder to qualify with a DTI above 40%, and 36% is the preferable limit. It's also wise to request a loan that is no more than four times the amount the VA will guaranty in the area where you are planning to buy.

$$\frac{\text{Your outstanding debt}}{\text{Your gross income}} = \text{DTI Ratio}$$

SHOPPING FOR A LOAN

A smart way to start your search for a mortgage loan is by checking online to get a sense of the current lending environment, including the average interest rate that lenders are charging. You can find ballpark numbers without having to provide any personal information at a number of commercial sites.

Next, contact several lenders, starting with your primary financial institution, such as the credit union or bank where you have checking and savings accounts. You may be eligible for a somewhat lower rate as an existing member or customer, provided you qualify to borrow. You'll want to ask about interest rates and settlement costs separately, and take good notes, so you can make a more accurate comparison of possible offers. This may also allow you to negotiate a deal more effectively.

Within three business days of a mortgage loan application, the lender must provide a good faith Loan Estimate of the total cost of borrowing. The form was redesigned by the Consumer Financial Protection Bureau (www.cfpb.gov) to make it easier to understand what you'll owe and how competing offers compare. You'll get a similarly designed Closing Disclosure just before the sale is finalized.

What it costs you to borrow depends on three things: the amount of your loan, the annual percentage rate (APR), and the loan term, which is often 15 or 30 years. The less you borrow, the lower your rate, and the shorter the term, the cheaper borrowing is. The reverse, of course, is true as well.

Amount of your loan
+ APR
+ Loan term
= Total cost of a mortgage loan

CHECK YOUR CREDIT

At least six months before you begin the hunt for a mortgage loan, logon to www.annualcreditreport.com to check your credit report with one of the three major credit reporting agencies—Equifax, Experian, or TransUnion. You're entitled to a free report from each of the agencies once every 12 months.

What you're looking for are red flags that might make a potential lender hesitant to provide a loan. This can happen if the record shows you've been 30 days or more late in making credit payments, you have large credit debts, you've ever defaulted, or you have judgments against you.

If you've had such problems, you may be turned down unless you can convince the lender you are a good risk despite the record. In fact, it may be wise to postpone trying to buy until you can improve your credit record.

If you find mistakes—and they can and do occur—contact the agency to have them corrected. There are clear instructions on the website explaining what to do.

FIXED OR VARIABLE?

One major decision you'll have to make is whether to choose a fixed rate, a variable rate, or a hybrid rate mortgage loan. Most lenders offer all three alternatives.

BUYER BEWARE

Before you take an adjustable rate or hybrid loan, be sure to find out the highest rate you could ever pay.

TYPE OF MORTGAGE	CONDITIONS
Fixed Rate	Your monthly payments of principal and interest remain the same for the term of the loan.
Variable Rate	The payment changes when the rate is adjusted up or down, typically annually, in response to a change in the cost of borrowing as reflected in a public index.
Hybrid	The rate is fixed for the first five, seven, or ten years and is adjusted at least annually after that.

There are caps, or limits, on variable rate changes with a VA loan guaranty: up to 1% annually and 5% over the life of the loan. With a hybrid loan whose fixed period is more than five years, the caps are 2% at the first adjustment and 6% over the loan term. These caps are linked to the actual cost of borrowing at the time you take your loan, which is typically higher than the initial rate you pay.

WHAT A PITI

In addition to principal and interest, your monthly mortgage loan payment will almost certainly include 1/12 of your annual homeowners insurance premium and 1/12 of your local property taxes. Together, Principal, Interest, Taxes, and Insurance are known as PITI.

Long-Term Planning

Achieving your most important goals takes time—and a strategy to get there.

Investing is essential to long-term planning, whether your goals are owning a home, paying for education, enjoying a secure retirement, or fulfilling a dream worth working for. What makes investing effective is having a workable plan for adding new money regularly, monitoring and evaluating your progress, and modifying your approach as your goals evolve.

One of the biggest challenges is the number of choices you have to make: which accounts to open, what investments to make in those accounts, and when to buy and sell.

MANY ACCOUNTS, ONE VALUE

If you're investing for different goals using different accounts, keep in mind that certain investments may be better suited to one type of account than another. For example, municipal bonds may not be the best choice for a tax-deferred account. That's because the interest they pay is usually tax free in a taxable account, but all withdrawals from tax-deferred accounts are taxable, whatever their source.

CHOOSING ACCOUNTS

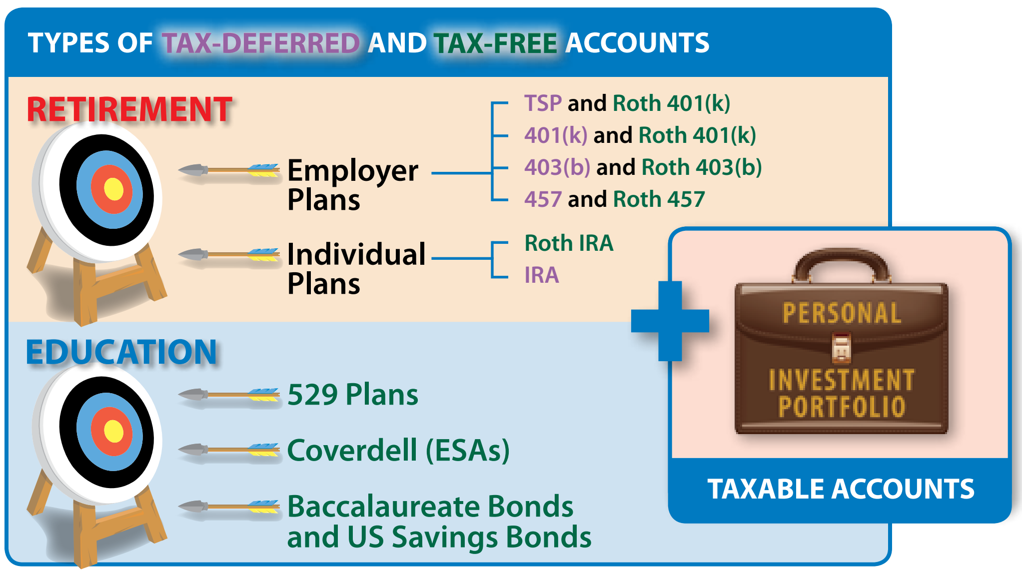
After you identify your goals, the time frame for achieving them, and the amounts you want to accumulate, the next step is opening the investment accounts that will best help you meet these objectives. Your choice includes tax-deferred, tax-free, and taxable accounts—and many investors use all three.

For example, when you're investing for retirement or higher education, you can take advantage of tax-deferred or tax-free accounts. Tax deferred accounts let you postpone taxes on your investment earnings—and sometimes on amounts you invest—until you withdraw the money. With tax-free accounts you typically avoid taxes on your earnings entirely, provided you follow the rules for taking your money out.

The accounts best suited for retirement include employer-sponsored plans, such as TSP, 401(k)s, 403(b)s, and 457s, and individual retirement accounts (IRAs). You can open an IRA with a financial services institution, such as a credit union, bank, mutual fund company, or brokerage firm. With IRAs and some employer plans, you have the choice of tax-deferred or tax-free Roth accounts.

The accounts designed to help you save for education include state-sponsored 529 college savings plans, Coverdell education savings accounts (ESAs), and, in some states, what are known as baccalaureate bonds. You invest after-tax income in these accounts, but earnings are free of federal income tax if you use the money to pay qualified education expenses. Interest on US savings bonds may also be tax free.

You can always use taxable accounts to invest for any goal, including retirement and education. You may do so, for example, if you reach the contribution cap on tax-deferred or tax-free accounts or you want greater flexibility. With taxable accounts, there are no limits on the amount you can invest or on how or when you can use the money. But you will owe income tax on your earnings and any capital gains in the year you realize them.



TAX-DEFERRED OR TAX-FREE?

When you are ready to open an IRA or start participating in an employer's retirement plan, which should you choose—the tax-deferred account or the tax-free Roth?

If you think you'll be earning more in the future than you're earning now, there are good arguments for choosing a Roth. While you'll be paying income tax now on your contributions at your regular tax rate, in the future your withdrawals will be tax free if you're at least 59½ and your account has been open at least five years.

If your after-service job is with the federal government, you can continue contributing to your Thrift Savings Plan (TSP) account as you did on active duty. If you're working in the private sector or for a state government, you have a number of options for handling your TSP account balance. You may:

- Leave it in the TSP until you turn 70½, when you must begin to take required minimum distributions. But if you retire earlier, you may begin withdrawing without penalty any time after you turn 59½
- Roll it over to an IRA that you open with a custodian of your choice
- Roll it over to a 401(k), 403(b), 457, or similar employer plan, provided the plan accepts rollovers

Sticking with the TSP is often a smart move. The fees are low, the investment choices are diversified, and you can continue to adjust the way your money is invested in the available funds.

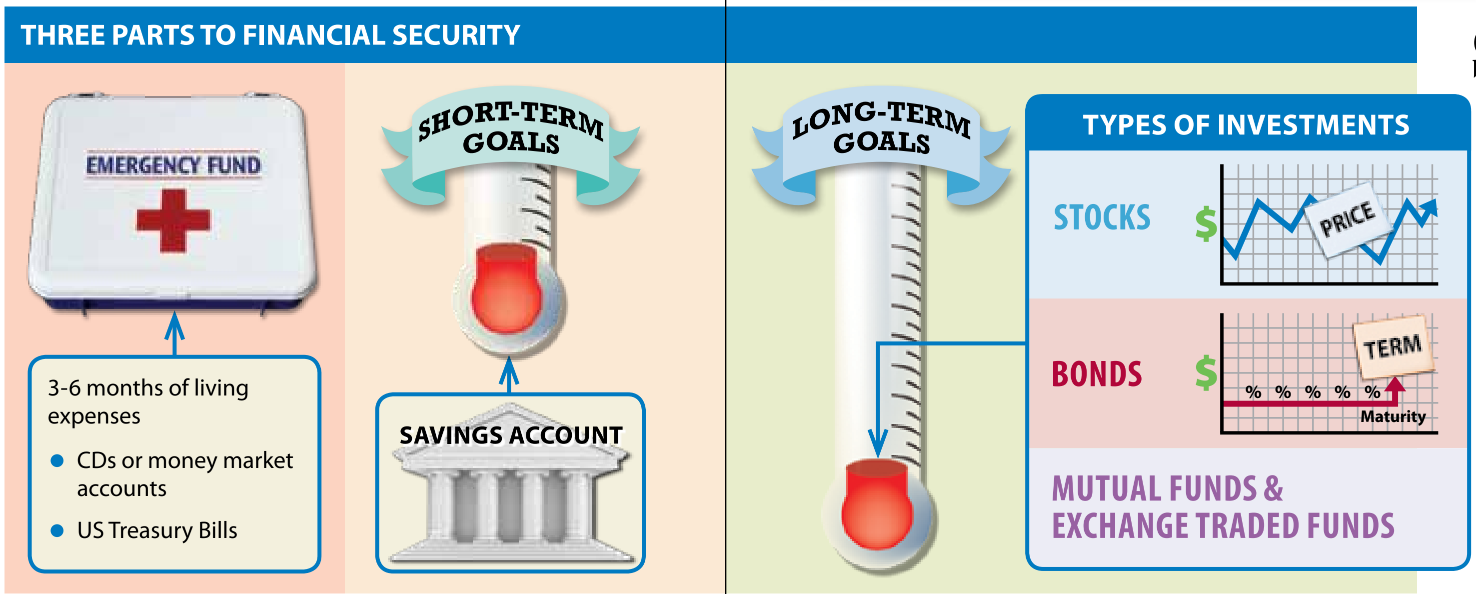
While you can't make additional contributions to your TSP account unless you go back to work for the government, you can take advantage of one special alternative that's not typical of other employer-sponsored retirement plans: You can roll over IRA assets or account balances from former employers' plans to consolidate your savings in the TSP.

Another thing you can do, but should try to avoid if you possibly can, is to use the money in your TSP account to meet current needs. If you withdraw money before retirement, you'll owe income tax on the full amount you take plus a 10% tax penalty if you are younger than 59½. And worst of all, you'll have to start saving for retirement all over again.

Saving and Investing

Putting money aside can help meet emergencies and long-term goals.

If you're feeling financially stressed—which can happen when you're juggling work, education, and family responsibilities—saving and investing may be the last things on your mind. Yet both are essential to your financial security and the security of the people who depend on you. And getting started doesn't require a big commitment of money or time.



EMERGENCY FUNDS

Financial emergencies have a nasty way of cropping up at inconvenient times: Your car needs a major repair, the refrigerator dies, or, worse yet, you or your spouse is out of work for several months and you need money to cover the mortgage or other regular expenses.

Other unexpected events—even pleasant ones, such as your parents' anniversary party or a chance for your children to go to a sports or music camp—can foul up your spending plan.

Of course, you could put some of these expenses on a credit card. But you risk increasing these costs significantly if you pay off the bills over an extended period. And, in the worst cases, the expense may put you over your line of credit.

The better solution is to build an emergency fund—sometimes called a rainy-day fund—by saving a regular amount from each paycheck until you hit your target. As a rule, your emergency fund should provide a minimum of three to six months of living expenses in easily accessible accounts, such as certificates of deposit (CDs), 13-week US Treasury bills, and money market accounts.

Easily accessible accounts are liquid, which means you can sell or redeem them quickly for cash with little or no loss of value. In addition to being liquid, these accounts are either federally insured or, in the case of Treasury bills, backed by the government's promise to repay.

With CDs, you can use a technique called laddering. Instead of putting your entire emergency fund in one CD, you can split the money among three or four one-year CDs that mature at regular intervals during the year. The staggered maturity dates reduce the risk of having to take an early withdrawal. If there's no emergency, you can roll the CD over for another term.

OTHER REASONS TO SAVE

Once you have an emergency fund, saving can also help you meet short-term goals, such as the down payment on a new car or the money to pay for a family vacation. Saving is all about putting away a regular amount on a regular basis. Sure, you may earn some interest, but what really builds your account value is regular cash infusions.

TIP
In most cases, the younger you are, the more you want to focus on long-term growth by investing in stock and stock funds.

To support a savings habit, it often helps to arrange for a direct transfer periodically from your checking to your savings account. That way, you won't be so tempted to spend the cash.

STEP UP TO INVESTING

Like saving, investing helps protect your financial security. But it differs from saving in two significant ways:

1. Most investments are not federally insured and can lose value, which means you take a certain amount of risk in investing that you don't take when you save.
2. Over time investments as a whole, though not every individual investment, have provided a stronger return than savings. While there's no guarantee that history will repeat itself, it's reasonable to assume that investing, if done judiciously, can make the difference between just getting by and meeting your goals.

Investing also requires learning enough about various types of investments—basically stocks, bonds, and the mutual funds and exchange traded funds (ETFs) that invest in stocks and bonds—to make informed choices.

Stocks and stock funds are equity investments, which means you buy an ownership share when you invest. You may earn dividend income on stock investments and, if the price increases, you may decide to sell at a profit. But stock prices aren't fixed and can go down as well as up.

Bonds have a fixed price if you buy at issue and hold until maturity, and they pay interest income, usually at a fixed rate. But the prices change during the term, so if you sell before maturity, you may sell for more or less than you paid to buy.

With any investment, if you sell when the price is less than you paid, you'll lock in a loss.

LEARNING THE INVESTING ROPES

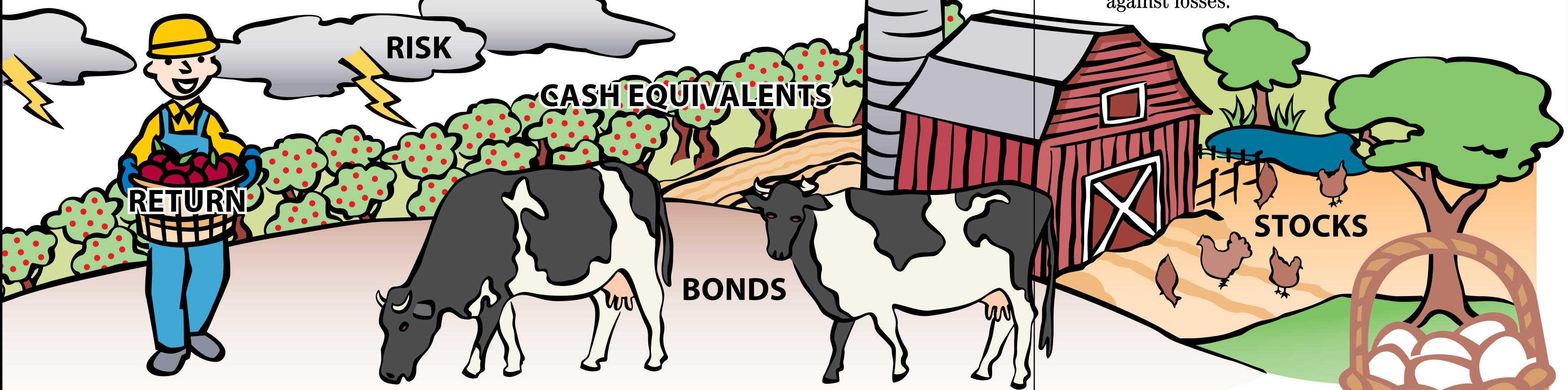
The best approach to investing is to learn as you go. A number of websites, including www.investor.gov and some state regulators' websites, offer clear, unbiased information about investing and provide links to other resources. Also, find out if your credit union or bank provides investor seminars, and check to see if local schools or libraries offer introductory courses on investing. Be cautious, though, of seminars that are really fronts for selling specific investments.

TIP
If you have to tap your emergency fund, it's best to start rebuilding it as soon as the emergency ends so you can draw on the fund again if the need arises.

Investment Strategy

The best investment decisions are made carefully, for logical reasons.

Like other experiences that link your reward to the risks you take, investing can be intimidating and exhilarating at the same time.



RISK AND RETURN

Once you've selected the accounts you'll use to reach your goals, your next challenge is achieving positive returns on your investments in those accounts. That way, over time you'll have the assets you need by the time you need them.

Return is a measure of what you accumulate in relation to the amount you invest, called your principal. Your account value can increase in two ways—the prices you paid for investments can go up, and you may have interest or dividend earnings. You add the change in value to the earnings to calculate the return.

There is always the risk, however, that prices could fall, producing a negative return. If you sell when an investment's value is down, you could lose some or all of your money, and miss out on any potential gains.

While investing always poses the risk of loss, or of getting a smaller return than you anticipated, there are two strategies you can use to help protect your portfolio against market gyrations or losses from specific investments. One is asset allocation. The other is diversification.

ALLOCATING ASSETS

Using asset allocation means that you invest your principal, on a percentage basis, in different types of investments, called asset classes, which put your money to work in different ways. The three major asset classes are stocks, bonds, and cash equivalents, including insured certificates of deposit (CDs) and US Treasury bills. Other classes include real estate and commodities.

Mutual funds and ETFs belong to an asset class based on their investments: stock funds own stocks and bond funds own bonds. Some funds, however, are grouped into a category called asset allocation funds because they invest in more than one asset class. Balanced funds, for example, own a blend of stocks and bonds. Target date funds change their allocation from a concentration in stocks to a concentration in income-producing investments, such as bonds, as the target date in their name—such as 2025 or 2035—gets closer.

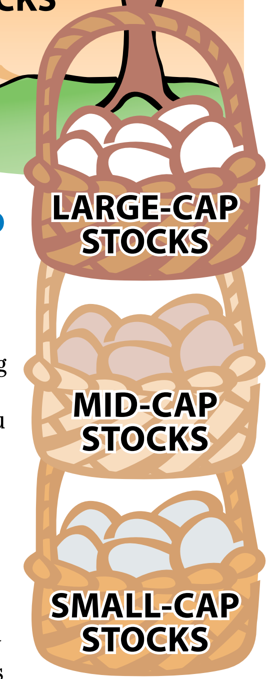
Different asset classes tend to react in different ways to a shift in the economy or investment markets, such as a change in interest rates. Stock prices often increase when bond prices fall, and the reverse. If you own some stocks and some bonds (or a balanced mutual fund), you increase the probability that some investments will be gaining value even if others are flat or losing value. That's the reason for including several asset classes in your investment portfolio.

Just remember, though, that allocating doesn't ensure a profit or provide total protection against losses.

LOOK FOR HELP

If you're having trouble making a plan or selecting investments, finding a reputable financial planner, registered investment adviser (RIA), or stockbroker may help. You can check out an RIA with the Securities and Exchange Commission (www.adviserinfo.sec.gov). You can investigate brokers at FINRA BrokerCheck (www.finra.org/brokercheck)and both RIAs and brokers with your state regulator, which you can locate at www.nasaa.org.

DIVERSIFYING YOUR PORTFOLIO



Diversification involves investing in a number of investments within each asset class. It's the same logic as not putting all your eggs in one basket. For example, you might divide the money you allocate to stocks among those issued by companies of different sizes and in different industries, both domestic and international.

Often the easiest way to diversify, especially as you start to invest, is by focusing on broad-based mutual funds and ETFs that own a substantial number of investments within an asset class. In fact, many people choose index mutual funds, like the ones offered in TSP accounts, or ETFs linked to broad market indexes because they are not only diversified but also among the lowest cost investments you can own. Remember, the less you pay in fees, the more of your return you get to keep.

The reason to diversify is to protect your portfolio value against losses in a single company or companies affected in a similar way by a change in market conditions. Like asset allocation, diversification is a useful strategy for managing risk but not a guarantee of success.

BUYING AND SELLING

Investing usually works best as a long-term proposition.

If you follow a buy-and-hold approach, you build a diversified portfolio by purchasing investments that meet your criteria for being good choices in their own right and good additions to what you already own. Then you hold on, through market ups and downs, unless there is good reason to think an investment is no longer as valuable as you originally thought and seems unlikely to recover its value. For example, a company whose business was renting DVDs could be expected to falter in the era of streaming video unless it changed its business model.

Alternatively, you might set goals for investment performance and sell certain stocks or funds that have gained 15% or 20% in value, using the proceeds to make a new investment.

Either way, you want to be sure all your investment earnings are reinvested to buy more shares or additional bonds. That way, you can take advantage of the power of compounding to build your investment account.

NUMBERS TO CALL FOR ASSISTANCE

You can access information or assistance by calling the following telephone numbers, which are listed alphabetically. All numbers beginning with 800, 855, 866, 877, and 888 are toll-free calls.

AnnualCreditReport.com	877-322-8228
AICCCA	866-703-8787 or 703-934-6118
Consumer Financial Protection Bureau (CFPB)	855-411-2372
Continued Health Care Benefit Program (Humana Military Tricare)	800-444-5445

Department of Veterans Affairs (VA)

Benefits *Disability Compensation, Disability Pension, Home Loan Guaranty, Medical Care, Vocational Rehabilitation and Employment*	800-827-1000
Civilian Health and Medical Program (CHAMPVA)	800-733-8387
CHAMPVA Meds by Mail	888-385-0235 or 866-229-7389
Debt Management Center	800-827-0648
Education (GI Bill)	888-442-4551
Health Benefits	877-222-8387
Life Insurance	
SGLI or VGLI	800-419-1473
All other	800-669-8477
Mammography Helpline	888-492-7844
Mortgage Payment Help (CFPB)	855-411-2372
Pension Scam Hotline	877-294-6380
Special Issues	800-749-8387
Vet Center Combat Call Center	877-927-8387
Veterans Crisis Line	800-273-8255

Department of Labor

Employment Issues *National Contact Center* Phone numbers by topic at www.dol.gov/dol/contact/contact-phone-topics.htm	866-487-2365

Federal Trade Commission	
ID Theft	877-438-4338
Making a complaint	877-382-4357
Iraq and Afghanistan Veterans of America (IAVA)	212-982-9699 or 202-544-7692
Military Crisis Line	800-273-8255, Press 1
Military OneSource	800-342-9647
Spanish	877-888-0727
TTY/TDD	866-607-6794
NFCC	800-388-2227
Spanish	800-682-9832
Small Business Administration Veterans Business Outreach Centers	800-827-5722
Veterans Consortium Pro Bono Program	888-838-7727 or 202-628-8164

Resources

CA Department of Veterans Affairs
Toll-Free 1-800-952-5626 www.calvet.ca.gov

CA Department of Consumer Affairs
Toll-Free 1-800-952-5210 www.dca.ca.gov

CA Department of Justice – Attorney General's Office
Toll-Free 1-800-952-5225 www.oag.ca.gov

Keep Your Home California
Toll-Free 1-888-954-5337 www.keepyourhomecalifornia.org

U.S. Department of Veterans Affairs
Toll-Free 1-800-827-1000 www.va.gov

U.S. Securities and Exchange Commission (SEC)
Toll-Free 1-800-732-0330 www.sec.gov

Consumer Financial Protection Bureau (CFPB)
Toll-Free (855) 411-2372 www.consumerfinance.gov

Financial Industry Regulatory Authority (FINRA)
Toll-Free 1-800-289-9999 www.finra.org

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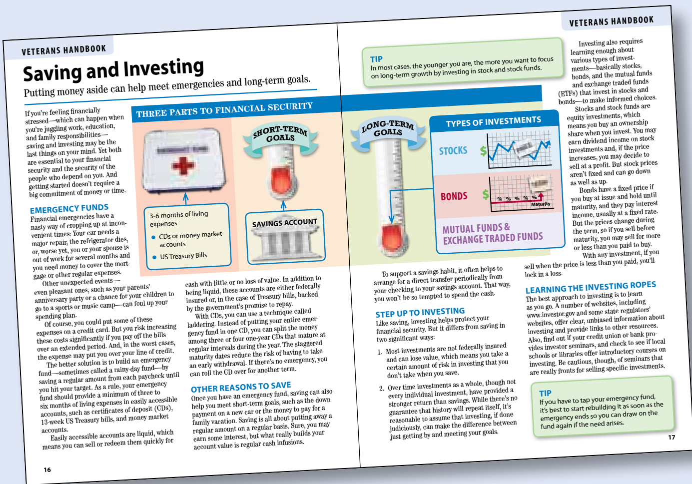
THE VETERANS HANDBOOK *helps the newest generation of veterans make a smooth transition to civilian life. The handbook explains the benefits that make higher education and home ownership accessible and discusses the practical aspects of finding a job, managing money, and investing for the future. Written in clear language with colorful illustrations, the Handbook also lists the resources veterans can trust for reliable information.*



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THREE PARTS TO FINANCIAL SECURITY

3-6 months of living expenses

- CDs or money market accounts
- US Treasury Bills

SHORT-TERM GOALS

SAVINGS ACCOUNT

LONG-TERM GOALS

TYPES OF INVESTMENTS

STOCKS

BONDS

Maturity

MUTUAL FUNDS & EXCHANGE TRADED FUNDS

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