University 102: Financial Literacy Workshop

My Finances Matter

Thank you for downloading the University 102 Fin Lit Workbook. I'm so excited you've taken the first step to learn more about personal finance. During the workshop, we will discuss three major personal finance topics, credit, savings and budgeting. Once you have a firm grip on understanding those items, you will have a solid foundation in which to build your financial knowledge. When I started my financial education journey, I was at a really low point. I had made so many horrendous financial decisions that I needed to start with the basics. I started repairing my financial maze by creating awareness. I would notate my spending behaviors. For example, I would go shopping for clothes when I was emotional. I would shop excessively every weekend. Every time I went home to visit, I would purchase unnecessary things for my family. It was eye opening to sit every Monday and review my purchases from the previous week. I begun tracking all of my purchases as I was making money but I never had any money. I wasn't saving anything and I had thousands of dollars in credit card and medical debt. My recommendation is that you start to discover the type of spender you are. Recognize who you learned money behaviors

from. For me, it was my mother. We didn't grow up with lots of money. I watched my family struggle and often our family lived paycheck to paycheck. As a result, I lived in the same manner for many years because I'd never known anything else. Understanding how relationships and emotions affect money and how you handle money is the first step to building a solid foundation. In the next section, we will learn about all things credit including credit cards, credit reports and credit scores.

ALL THINGS CREDIT...

What is credit?

Credit represents an agreement between a borrower and a lender wherein the lender will give the borrower something of value and the borrower promises to pay the lender back at a future date, usually for a fee.

What are the different types of credit?

Revolving, Installment and Service

What is revolving credit?

This types usually have a maximum limit you can borrow from, at each month, you carry a balance and make a payment. Credit cards are the most common type of revolving credit.

What is installment credit?

This type is usually loan of a specific amount, and you make regular payments consisting of principle and interest. A mortgage or personal loan are common types of installment credit.

What is service credit?

Credit agreement with a service provider and you pay in full monthly. The most common types are gym memberships or utilities. These typically do not report to the credit bureaus.

What is a credit bureau?

A company that collects information related to our credit activity and organizes the information into a credit report and makes the information easily available to lenders.

How many credit bureaus are there?

There are three (3) main bureaus, Experian, Equifax and TransUnion. Not all companies will have the same information as all lenders do not report to every bureau.

What is a credit report?

A document that details all of your financial activity (behavior) and identification information, as reported, such as open accounts, closed accounts, inquiries, etc.

What is a credit report? ***continued***

The information can be pulled from public records such as a lien/bankruptcy or the information can be provided by a creditor/lender.

- Other items listed on the report is your basic information. It is important to ensure there aren't inaccurate information on your report because it can lead to fraud. Names, addresses, phone numbers, etc.
- Judgments/Liens
- Bankruptcy
- Evictions

What is a credit score?

The credit score is developed based on the information on your credit report. The most commonly used credit score is the FICO score which was developed by Fair Issacs Corporation. There are several other types of scores such as the VantageScore but we will focus on FICO because that is the score that most lenders (90%) use when making decisions. From this point on, when we say your credit score, we are referring to the FICO score. Scores range from 300-850.

How is the credit score computed?

There are 5 components to computing a credit score.

Payment history (35%) – Have you been paying your bills on time? Late payments can have a significant negative impact on your credit score.

Outstanding debt (30%) – How much money you owe in relation to how much debt is extended to you. When companies look at your outstanding debt, they often look at your utilization. Credit utilization is the total of revolving debt divided by the total debt. Other experts suggest keeping your utilization below 30%. For a new credit user, I suggest keeping your utilization at 10% or less.

Length of credit (15%) – How long your accounts have been established. Your total credit history gives lenders a solid idea of how long you've been using credit.

Types of credit used (10%) – This is also known as your credit mix which simply means what types of credit to you have i.e. retail, installment, credit cards, personal loans, mortgage loans. Often lenders may experience hesitation during the consideration process because you may not have the type of credit they offer.

How is the credit score computed?, *continued*

Pursuit of new credit (10%) – On your report, these are simply called inquiries. Inquiries are when lenders request a copy of your report during the consideration process. Considered a greater risk if you've opened several accounts in a short period of time. Inquiries remain on your credit report for 24 months, but they only have an affect on your score for 12 months. When you check your own credit that is not considered an inquiry and will not have any effect on your credit score.

How do you build and maintain good credit?

There are several ways to build credit. Here's a list of possibilities.

Secured credit card - A secured credit card is a credit card that is secured by collateral. The issuing bank requires a deposit upfront and that is typically also your spending limit. After 6, 12, or 18 months, depending on the bank, of on time payments, the bank will refund the deposit and convert the card to a unsecured card. The benefits of a secured card includes having a low credit limit which gives you time to learn to use it. This is especially useful for someone that has never had a card before.

How do you build and maintain good credit?, *continued*

Unsecured credit card - An unsecured credit card is the most common type of credit card. It is not secured by any collateral which means they are not linked to a property that can be seized if the cardholder fails to pay.

Become an Authorized User - You can be an authorized user on someone else's card. This is when you can use someone else's credit card (but in your name) and not be the primary account holder. Should you decide to ask someone to do this, it should be someone you trust such as a parent. It should be someone with good credit habits as their credit history with that card will instantly become apart of your history. This can be an effective and simple easy way to obtain credit instantly. Also, typically it cannot be a store card, it must be a major credit card. Your credit history will have no effect on theirs but their good habits will apply to you. You can be added as an authorized user and not have the card so you aren't tempted to use it. Because you are not the primary cardholder, you also have limited liability to pay in the event there's a default. The primary con to being an authorized user is that if the original cardholder changes their habits in a negative way, it can have a negative impact on your credit.

How do you build and maintain good credit?, *continued*

Car loans - A car loan is another way to build credit as it involves making regular payments to a lender that reports to a credit bureau. A car loan is considered an installment loan and the car is the collateral for the loan. Should you default on the loan, the lender can take the car as payment against the loan.

Personal loans - A personal loan is a loan that is intended to be used for personal purposes. There are several reasons why people get personal loans. Some examples include consolidating credit card debt, finance a home remodel, finance a wedding, moving expenses, funeral expenses, or pay medical bills. Personal loans are also installment loans.

Rental reporting services - There are companies that will report your rental payments to one or more of the three major credit bureaus. This type of service allows you to build credit while not going into debt. Some services also allow you to report rents paid previously. This is a great way to build credit doing something you already do monthly. There are fees charged for the service.

How do you build and maintain good credit?, *continued*

Credit-builder loans - A credit-builder loan is a "personal" loan secured by collateral. In this type of loan, the lender requires a deposit which is put into a certificate of deposit. (Yay!! It's gaining interest!) Then the lender provides a "personal loan" in the same amount of the deposit. As you make payments, that information is reported to the credit bureaus. It is a very simple and safe way to start building credit. As mentioned earlier, the money is put into an interest earning CD so at the end of the loan term, you will receive your deposit plus interest gained.

What is an interest rate?

When you are a borrower, you pay interest to the lender. The interest rate is the fee you're charged by a lender for borrowing money, and it is expressed as a percentage of the total amount of the loan.

When you are depositing money into a certain type of bank account, you can earn interest on your money. Those amount are also stated as an annual percentage or APR (Annual Percentage Rate).

In this section, we will work through money management including savings and debt. This is one of my favorite areas of personal finance. It is also the section that keeps me up at night researching! There's so much to learn about the topic and I love trying new techniques.

"The single biggest difference between financial success and financial failure is how well you manage your money. It's simple: to master money, you must manage money." ~T. Harv Eker of World Financial Group

Let's jump right into the various ways to save money!

Savings accounts - A savings account is a deposit account typically used for saving i.e. it is not your primary account used for everyday transactions. One of the pros about a savings account is it allows you to store money while keeping the funds readily available. Savings accounts earn interest. Interest rates are not typically very high on a regular savings accounts. Interest rates can also vary depending on the type of bank. Brick and mortar banks typically offer much lower interest rates than online banks. Interest rates on a savings account can start at 0.01%. Online banks typically offer much higher interest rates. Interest rates from an online bank can easily be 1.75% to 1.90% on a regular savings account.

Certificate of Deposit (CD) - A CD is a type of savings account but it has a fixed interest rate and also a fixed date of withdrawal. The date of withdrawal is called the maturity date. CD terms can be 6, 12, 18, 24 months. Monies deposited into a CD are not readily accessible as they have a fixed withdrawal date. If one would like to withdraw their money prior to the maturity date, they will incur a fee.

Ways to save, *continued*

Investment/Brokerage accounts - A brokerage account is a form of an investment account. It is a taxable account used to purchase investments such as stocks, bonds and mutual funds. Deposits into a brokerage account can be made via check, wire or electronic transfers. There are several types of brokerage accounts and what type you choose really depends on your goals. For example, some people open regular brokerage accounts because they want to manage their own investments. Others may select an advisory account where they work directly with a financial advisory to select investments that are in alignment with your goals. There are also robo-advised accounts where a robo-adviser manages your investments based on your goals. This is an alternative to working with a human. There are many considerations when opening a brokerage account such as selection of investments, fees and commissions, account minimums and support services. Please do your research before opening a brokerage account. There are many options available and it's best to research the right one for you and your goals. For example, when I was researching, I really wanted a firm that had a very robust website and app because that is a resource I find useful.

Ways to save, *continued*

IRA accounts - An IRA (Individual Retirement Account) is a form of an investment account that allows you to save for retirement. The two most common types of IRA's are traditional and Roth, with very different tax treatments. Both accounts offer tax breaks for investing money for retirement. Individuals are able to deposit up to $5,500 annually. IRA is a very effective way to save for retirement as the investments in you IRA grow tax-deferred. That means you don't pay tax on the gains as long as it remains in the IRA. There are several differences between a traditional IRA and a Roth IRA but the most common is the tax treatment. In a traditional IRA, the monies you contribute are deductible on your current tax return but when you withdraw the monies in the future, you will pay taxes on those dollars. In a Roth IRA, you do NOT get a tax deduction for monies contributed in the current year and when you withdraw those monies in retirement, you will NOT pay any additional taxes on them. You can use IRA's to purchase individual stocks, bonds and mutual funds. Please research before opening an account. There are many considerations when selecting both an investment firm and the type of account you open.

Ways to save, *continued*

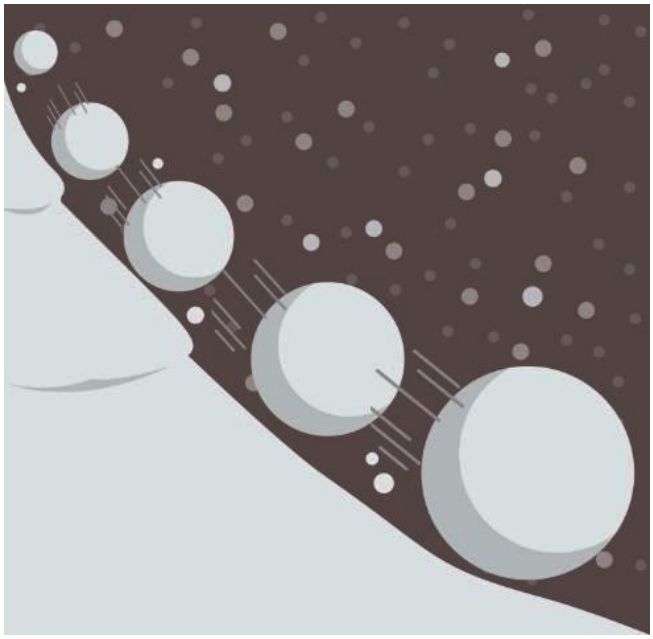
401(k) or 403(b) - A 401(k)/403(b) is an employer-sponsored retirement savings plan. This type of plan allows employees to make pre-tax contributions to the plan in which the employer withdraws money directly from the employees paycheck and deposits it into the plan. The contributions are then invested into the investment options selected by the employee from the plan selection. One of the cons about this type of plan is the employee does not have the ability to select which investments will be available in the plan. That is a function of the employer. Another con is sometimes plan fees can be costly. When money is withdrawn from the plan in retirement, it is subject to taxes. Individuals can contribute up to $18,500 annually. This form of saving is very popular as it is deducted from the employees paycheck. Another perk is that you can contribute to both an IRA and the 401(k)/403(b) in the same year! Companies also have the option to match up to a certain percentage of an employees wages. This is a huge perk because it is essentially free money! Who doesn't like free money?!?! With any investment option, please do your research before opening an account.

Let's discuss paying of debt!

There are two common approaches to paying off debt, the snowball method and the avalanche method. The snowball method is a strategy used to pay off debt based on the debt balances. It goes like this...

1. List your debts from smallest to largest
2. Make minimum payments on all of your debts except the smallest
3. Pay as much as possible on your smallest debt until paid off
4. Repeat for the next smallest debt until you eliminated your debts.

This method is very popular for people that need immediate gratification. It allows you to celebrate your wins quickly!



Let's discuss paying of debt!

The other strategy is the avalanche method and it goes like this...

1. List your debts from highest interest rate to lowest interest rate
2. Make minimum payments on all of your debts except the with the highest interest rate
3. Pay as much as possible on your highest interest rate debt until paid off
4. Repeat for the next highest rate debt until you eliminated your debts.

This method works well for those that can handle long-term goals and does not need immediate gratification.

In this section, we will discuss budgeting. Yay! A budget is not designed to scare you or evoke negative emotions in you. A budget is designed to provide a clear picture of your financial situation. A budget is a tool to help you reach your financial goals. A budget can greatly impact your financial wellness. It allows you to see where you may have opportunities to improve. This workbook provides you with the worksheets required to develop a detailed monthly budget. With this tool, you will be able to identify both your healthy and unhealthy spending habits. By identifying your unhealthy habits, you are presented with the opportunity to change them. Budgets helps you to define your wants vs. your needs. There are so many advantages to having a monthly and annual budget.

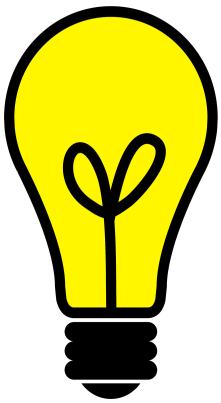
To more accurately develop your budget, you will need the following items: a list of all of your monthly income, three months of bills and three months of bank statements. Please understand that despite how much money you have, a budget can make a huge difference in your life.

Creating a simple budget can be quite easy to do. It is important to understand that your budget is a living document. I recommend updating your budget monthly. If you feel the need to review and update your budget more often, please do so. Enclosed you will find worksheets for both monthly and annual budgets. Both are really important to understanding and recognizing your goals.

Are you ready?

Grab your documents and let's get started!

The first step to making a true budget is to have an understanding of where you came from. This will assist you in deciding where you want to go. For your first assignment, I would like you to review your bank statements for the last three months and document your expenses. Once you have an understanding of what you have been spending, you can use those amounts to make some decisions, some easy and some difficult. Using the following worksheets, you can insert your budgeted amounts in the "Goal" column. At the end of the month, we will add your actual amounts to the "Current" column. The next step is to compare the two columns to see how you completed the month. Did you over or under spend from your budgeted amounts? Where would you like to make some changes? It is important to understand that the budgeting process will be emotional and will reveal things about yourself that may shock you. Now is the time to use that information, good and bad, and move forward.



Monthly Budget

Month _____

Income		
Employment Income	**Current**	**Goal**
Employment Income	$	$
Federal Taxes	-$	$
State Taxes	-$	$
Other Taxes	-$	$
Tips	$	$
Total Employment Income	$	$

Other Income	**Current**	**Goal**
Rental Income	$	$
Dividend Income	$	$
Interest Income	$	$
Other Support	$	$
Total Other Income	$	$

Money for Saving	**Current**	**Goal**
Emergency Funds	$	$
Retirement Plans	$	$
Investments	$	$
Short-Term Savings	$	$
Vacation	$	$
Charity/Giving	$	$
Total Money for Saving	$	$

Total Income (A)	$	$
Total Expenses (B)	$	$
Total Savings (C)	$	$
Amounts Remaining: (A)-(B)-(C)	$	$

Expenses		
Living Expenses	**Current**	**Goal**
Rent/Mortgage	$	$
Taxes & Insurance	$	$
Utilities: Gas & Electricity	$	$
Utilities: Water & Garbage	$	$
Cable	$	$
Internet	$	$
Phone	$	$
Other	$	$
Total Living Expenses	$	$

Travel Expenses	**Current**	**Goal**
Car Payment	$	$
Insurance	$	$
Gas	$	$
Maintenance	$	$
Registration	$	$
Other	$	$
Total Travel Expenses	$	$

Other Expenses	**Current**	**Goal**
Groceries	$	$
Credit Card Debt	$	$
Other Debts	$	$
Personal Items	$	$
Entertainment	$	$
Other	$	$
Total Other Expenses	$	$

An investment in knowledge pays the best interest. ~Benjamin Franklin

Monthly Budget

Month _____

Income		
Employment Income	**Current**	**Goal**
Employment Income	$	$
Federal Taxes	-$	$
State Taxes	-$	$
Other Taxes	-$	$
Tips	$	$
Total Employment Income	$	$

Other Income	**Current**	**Goal**
Parental Support	$	$
Financial Aid	$	$
Grants/Scholarships	$	$
Other Support	$	$
Total Other Income	$	$

Money for Saving	**Current**	**Goal**
Emergency Funds	$	$
Retirement Plans	$	$
Investments	$	$
Short-Term Savings	$	$
Vacation	$	$
Charity/Giving	$	$
Total Money for Saving	$	$

Total Income (A)	$	$
Total Expenses (B)	$	$
Total Savings (C)	$	$
Amounts Remaining: (A)-(B)-(C)	$	$

Expenses		
Living Expenses	**Current**	**Goal**
Rent/Mortgage	$	$
Taxes & Insurance	$	$
Utilities: Gas & Electricity	$	$
Utilities: Water & Garbage	$	$
Cable	$	$
Internet	$	$
Phone	$	$
Other	$	$
Total Living Expenses	$	$

Travel Expenses	**Current**	**Goal**
Car Payment	$	$
Insurance	$	$
Gas	$	$
Maintenance	$	$
Registration	$	$
Other	$	$
Total Travel Expenses	$	$

Other Expenses	**Current**	**Goal**
Tuition	$	$
Books/School Fees	$	$
Groceries	$	$
Personal Items	$	$
Entertainment	$	$
Other	$	$
Total Other Expenses	$	$

It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for. ~Robert Kiyosaki

Now that you have completed your budget, it's important to remember that your budget is a living document. As with all living documents, they require attention. You will need to revisit your budget often to make it work for you. Budgeting requires patience and consistency but the results can be amazing. If you miss a month, that's okay. Pick up where you left off and keeping going!

Don't tell me what you value, show me your budget, and I'll tell you what you value. ~Joe Biden