CIRCLE
FEDERAL CREDIT UNION
Centered Around You!

Money Mentor

financial literacy program

Credit

Debt

Budgeting

Saving

Housing

let's get started

Name ______________________________

Account (if applicable) ______________________________

Are you aware of what's coming in your bank account, going out of your bank account, and where it's going?

- ☐ Yes!
- ☐ No.

Does your household have a budget?

- ☐ Yes!
- ☐ No.

Do you have any of the following financial products?

- ☐ Pension Fund
- ☐ Investment Account
- ☐ Mortgage
- ☐ Auto Loan
- ☐ Credit Card
- ☐ Savings Account
- ☐ Checking Account
- ☐ 401k
- ☐ Certificate of Deposit
- ☐ Personal Loans
- ☐ Home Equity Loans
- ☐ Money Market Account

Do you have money set aside for 2 months worth of expenses?

- ☐ Yes!
- ☐ No.

Do you find it difficult to pay off/minimize debt? (if applicable)

- ☐ Yes!
- ☐ No.

How would you classify your current credit standing?

- ☐ No Credit
- ☐ Bad Credit (619 & under)
- ☐ Fair Credit (620-674)
- ☐ Good Credit (675+)

Would you like us to do a soft pull on your credit to analyze your current financial situation? Soft pulls have no negative impact on your credit score.

- ☐ Yes!
- ☐ No.

What is your 5 year financial goal?

____

Credit

What is credit and why is it important?

Credit is the foundation on which you build your financial life, allowing you to borrow money or access goods and services that you need right now based on the promise you'll pay it back later. Building and maintaining good credit helps you qualify to borrow money at the best available terms for increasingly larger purchases — like a home or vehicle — when you need them.

Types of Credit

Revolving

This is credit you can use repeatedly as you pay it off, like a credit card or line of credit. You can make purchases as long as you stay under the credit limit, which can change over time. You must make a minimum payment every month, but you can pay any portion of your outstanding balance up to the full amount.

Service

Service credit includes payments and bills from utility companies and service providers like cable and mobile phones. They provide you with a service with the understanding that you will pay for that service after the fact.

Installment

These loans are for a specific sum of money that you repay over a set amount of time such as mortgages, student loans, and auto loans.

Charge Card

Relatively rare nowadays, charge cards are similar to credit cards, but usually used exclusively at a particular establishment like a store or restaurant. They don't allow you to carry a balance, meaning you must pay all charges in full every month.

Credit Score Breakdown

35%
Payment History
Lenders want to know whether you make your payments on time.

30%
Amounts Owed
This factor looks at how much of your available credit you're using.

15%
Length of Credit History
How long your credit accounts have been established/used.

10%
New Credit
Too many new credit accounts in a short period of time can have a negative effect.

10%
Credit Mix
The diversity, or mix, of your credit accounts — credit cards, mortgage, auto loans, etc.

Examining Your Credit Report

When you start to use and build credit, your credit history is compiled by three independent credit bureaus — TransUnion, Experian and Equifax. — This is all summarized in what is called a credit report. Your credit report is used to determine your credit score, which the three credit bureaus use to determine your creditworthiness.

Your credit report includes basic information about you like name, address, date of birth, Social Security number, as well as details about your credit history including:

- The number of credit cards you have, their borrowing limits, and current balances.
- The amounts of all loans you've taken out and how much you've repaid.
- Payment history including all on-time, late, or missed payments.
- Any financial setbacks such as charge-offs, accounts in collections, foreclosure, repossessions, and bankruptcies. These generally stay on your credit report for seven years before they fall off.

You can get a free copy of your credit reports annually by visiting AnnualCreditReport.com

How to Start Building Good Credit

To build good credit, you need to establish a credit history of regular credit use and borrowing along with consistent, on-time payments. There are a few ways to begin building your credit history.

Secured Credit Card with Circle FCU

A secured credit card is a credit card that allows you to begin building credit while minimizing the risk of overspending. You'll put down an initial cash deposit that serves as the credit limit and use the card to make purchases like a regular credit card. You will then make regular monthly payments & your activity is reported to the major credit bureaus, contributing to your credit history.

Rate is fixed | Limits start at $250 | No credit report needed

Become an Authorized User

By becoming an authorized user on someone else’s (usually a family member’s) credit card, you get to piggyback off that individual’s existing credit history to start building your own. Depending on what limits the primary cardholder puts in place, you’ll be able to make purchases with the card, which will impact both yours and the primary cardholder’s credit histories.

Debt

What is debt?

Debt is money you owe a person or a business. It's when you've borrowed money you'll need to pay back. Usually, people borrow money when they don't have enough to pay for something they want or need. If you do borrow money, it's best to have a plan for how you'll pay it back.

Main Categories of Debt

Most Americans encounter some form of debt in their lives. However, not all debts are created equally and some are considered better than others. While debt comes in several forms, all personal debt can be categorized within the following types:

Secured

Secured debt is any debt backed by an asset for collateral purposes. A credit check is necessary for the lender to judge how responsibly debt has been handled in the past, but the asset is pledged to the lender in case the borrower does not repay the loan. If the loan isn't paid back, the lender has the option to seize the asset.

examples

Auto Loan

Mortgage

Unsecured

Unsecured debt lacks any collateral. When a lender makes a loan with no asset held as collateral, it does so only on the faith in the borrower's ability and promise to repay the loan. The borrower is bound by a contractual agreement to repay the funds, and if there is a default, the lender can go to court to reclaim any money owed.

examples

Credit Card

Student Loans

Revolving

Revolving debt is an agreement made between a lender and consumer that enables the consumer to borrow an amount up to a maximum limit on a recurring basis. Revolving debt can be unsecured, as in the instance of a credit card or secured, such as on a home equity line of credit.

examples

Credit Card

Home Equity

Debt

What is DTI?

Your debt-to-income ratio (DTI) is all your monthly debt payments divided by your gross monthly income. This number is one way lenders measure your ability to manage the monthly payments to repay the money you plan to borrow.

Debt-to-Income Calculation

$$\frac{\text{Total Monthly Minimum Payments}}{\text{Gross Monthly Income}} \times 100 = \textbf{DTI}$$

Low Debt Load
35% or less

Medium Debt Load
36% to 49%

High Debt Load
50% or more

Good Debt vs. Bad Debt

There is certainly an argument to be made that no debt is good debt, but borrowing money and taking on debt is the only way many people can afford to purchase important big-ticket items like a home. While those kinds of loans are usually justifiable and provide value to the person taking on the debt, there is debt that's taken on carelessly. While it's easy to differentiate between these two extremes, some other debts are harder to judge.

Good Debt

Good debt is usually secured debt - meaning it's attached to something of value. A mortgage is the best example. It's likely the largest amount of money you will ever owe, but as your balance decreases, your equity increases.

Bad Debt

Bad debt has high interest rates and the value of whatever you borrowed the money for doesn't offset what you end up paying. Examples are high-interest loans for a vacation, or a car with such a long term that you will owe more than the car is worth.

Determining whether a debt is good or bad sometimes depends on an individual's financial situation, including how much they can afford to lose.

Debt

Do I have too much debt?

Borrowing too much money can result in excessive debt, which can make it harder to manage your finances and pay your monthly bills. It may also hurt your credit rating and your reputation as a borrower. Here are a few signs that you may have too much debt:

- You don't know how much you owe
- You spend more money than you make
- You struggle to make minimum payments
- You miss some required payments
- You can't buy things you need
- You have a bad borrowing reputation
- You're not able to save money
- You're getting calls from collections

How do I get out of debt?

Finding yourself deep in debt can be overwhelming. The good news is, getting out of debt is possible—it just takes a little time. While some debt can be unavoidable—such as a mortgage or car loan—you can and should deal with other unnecessary debt that's causing stress. Once you formulate a plan and stick to it, you could find yourself debt-free and armed with the knowledge to stay that way.

List everything you owe

Make a list of all your debts. Include your mortgage, auto loans, student loans, other types of loans, accounts in collections, and credit cards.

→ Add your monthly loan payments and minimum credit card payments to determine the minimum amount you owe each month.

Decide how much you can pay each month

Once you've listed your current debts, make another list that includes all of your non-debt monthly expenses, such as groceries, cell phone bill, utilities, gas for your car, rent, entertainment, clothing and so on. Some of these amounts can vary from month to month, so it's a good idea to take the average of several months.

→ Reconsider your expenses and consider ways to spend less. For example, if you dine out a lot, cutting back could save money that you could put toward paying off debt.

→ Consider a debt consolidation loan. This would allow you to compile multiple high interest debts, such as credit card balances, into a single lower interest debt.

→ Increase your income. This will give you more money to put toward your debt. You might get a second job, sell some things you don't need, or look for a job that pays more.

Debt

Pay your bills on time each month

Paying all of your bills on time every month is one of the single best things you can do for your credit. Take any steps necessary to ensure you remember to pay your bills. You can set up automatic payments or payment reminders through your bank to ensure you never miss a payment.

- Put extra money toward the debt with the highest interest rate.
- Put extra money toward the credit card or debt with the smallest balance.
- Deal with any debts in collections. Bringing collection accounts current can help reduce their negative impact on your credit, which is a good reason to put it at the top of your to-do list.

Other Self-Guided Methods

Debt Snowball

This approach focuses on paying off your debts from smallest to largest — regardless of interest rate — and snowballing your payments onto the next debts gaining momentum with each paid-off balance until you're completely debt-free. This method works well for people looking for noticeable results early on.

Debt Avalanche

This method emphasizes saving on interest as you pay off debt. You focus on paying the minimum payments on all your accounts, then using any remaining money to pay extra on the debt with the highest interest rate. After paying that off, redirect that amount to the account with the next highest interest rate.

Budgeting

Creating a budget and sticking to it.

The first step in money management is creating a budget. When you want an accurate view of your daily finances, start by analyzing how you spend your money every day, week, and month. Then determine where you can reduce expenses and increase savings.

Things to consider when creating a budget

- Look closely at miscellaneous spending, like dining out and entertainment, to see what you can reduce.
- Outline every expense and put a cap on the ones you can control.
- Stay under those caps and deposit any extra money into savings.
- Keep track of your spending in a spreadsheet or notebook.

50-30-20 Method

The 50-30-20 rule is intended to help individuals manage their after-tax income, primarily to have funds on hand for emergencies and savings for retirement.

This method splits your monthly income among three main categories:

50%

Needs

Necessities are the expenses you can't avoid. This portion of your budget should cover required costs such as:

Housing | Food | Transportation | Basic Utilities | Insurance | Loan Payments | Child Care

30%

Wants

Generally, wants are the extras that aren't essential to living and working. They're often for fun and may include:

Monthly Subscriptions | Travel | Entertainment | Dining Out | Clothes Shopping | Holidays

20%

Savings & Debt

Devote this chunk of your income to paying down existing debt and creating a financial cushion.

Emergency Fund | Saving for Retirement through a 401k or IRA | Paying off Debt

Budget

Saving

Why is it important to save money?

If you're already stretched covering your current expenses, you may wonder, why even bother to try saving? The answer is that everyone has to start somewhere, and even just putting aside a little bit every month is well worthwhile.

Peace of Mind

If money is tight, you may find yourself worrying how you will pay the rent or other critical bills if an unexpected expense were to suddenly come up. Financial experts generally recommend building an emergency fund of at least three months worth of living expenses to prepare for any financial surprises.

Having this contingency fund in your back pocket can provide the sense of security that comes with knowing you can get through a rough spot without hardship.

Building an Emergency Fund

We've all experienced unexpected financial emergencies—a fender bender, a medical bill, a broken appliance, a loss of income, or even a damaged cell phone. Large or small, these unplanned expenses often feel like they hit at the worst times.

Setting up a dedicated savings or emergency fund is one essential way to protect yourself, and it's one of the first steps you can take to start saving. By putting money aside—even a small amount—for these unplanned expenses, you're able to recover quicker and get back on track towards reaching your larger savings goals.

Why do I need it?

Without savings, a financial shock—even minor—could set you back, and if it turns into debt, it can potentially have a lasting impact.

How much do I need in it?

The amount you need to have in an emergency savings fund depends on your situation. Think about the most common kind of unexpected expenses you've had in the past and how much they cost. This may help you set a goal for how much you want to have set aside.

Most experts believe you should have enough money in your emergency fund to cover at least 3 to 6 months' worth of living expenses.

Housing | Food | Health Care | Utilities | Transportation | Personal Expenses | Debt

How do I build it?

There are different strategies to get your savings started. These strategies cover a range of situations, including if you have a limited ability to save or if your pay tends to fluctuate. It may be that you could use all of these strategies, but if you have a limited ability to save, managing your cash flow or putting away a portion of your tax refund are the easiest ways to get started.

Create a savings habit | manage your cash flow | take advantage of one-time opportunities

Where should I keep it?

Where you put your emergency fund depends on your situation. You want to make sure this fund is safe, accessible, and in a place where you're not tempted to spend it on non-emergencies.

Your Circle FCU account - create a dedicated sub savings account | keeping cash on hand

Don't be afraid to use it if you need it. If you spend down what's in your emergency savings, just work to build it up again. Practicing your savings skills over time will make this easier.

Getting Your Money to Work for You

Another big incentive to save is the power of compound interest.

Compound interest means you earn a return not just on the amount you originally put away, but also on the interest that accumulates.

Over time, that means you can end up with much more than you started with. The earlier you start saving, the more your money grows, since compound interest is able to work its magic over a longer time period.

Tips for Saving Money

- **Save Windfall Income** - any unexpected money such as income tax returns
- **Collect Loose Change** - use a piggy bank and deposit its contents when it's full
- **Try Frugality** - purchase cheaper 'off brand' items
- **Break a Habit** - try doing one less thing that is an expensive venture
- **Save Lunch Money** - Americans spend on average $1,000 annually eating out on lunch
- **Have a 'Buy Nothing' week**
- **Compare Costs of Major Items** - do your due diligence and shop around before buying
- **Use Coupons** - coupons are a great way to reduce living expenses

Housing

Preparing for Homeownership.

Home is where the heart is — and everything else. Housing is a necessity that is relevant to every consumer. Knowing the financial concerns and details that owning or renting a home or apartment entail will help you be more aware of what options you and/or your family have for shelter.

Is Owning a Home Right for You?

The first decision you'll need to make is whether owning a home is right for you. In the past, many people viewed homeownership as a necessary investment. Today, consumers are more aware of the potential drawbacks of homeownership. For example, depending on your location and lifestyle, it might be more expensive to own a home than it is to rent one. This doesn't mean that homeownership isn't a smart investment. It simply means that you need to make sure it is the right investment for you.

Questions to consider before you start the process:

How long do you plan to stay in your current location?

When you buy a home, you spend thousands of dollars in closing costs and other fees. Plus, it costs money to sell a home. Because of that, experts usually advise homeowners to stay in the home for at least five years. This will allow you to recuperate some of the buying costs and give you time to prepare for the sale.

How strong is the local job market?

If you have a job you love in a city you love, it might be difficult to imagine losing your job or quitting, but it's something homeowners might want to consider. If you were to lose your job, it's important to consider whether you would you be able to find a comparable job in the same location or if you would need to move to find one.

Is it cheaper to rent or own?

Homeownership isn't just about numbers. In fact, for many people, it's about lifestyle. But regardless of your reasoning for wanting to own a home, it's a good idea to crunch the numbers and determine whether it's cheaper to rent or own a home. Regardless of the answer, you'll be armed with knowledge and able to make the best choice for your family based on your priorities.

Once you've determined that homeownership is right for you, it's time to prepare for purchasing your first home.

Preparing For Your Purchase

Build Strong Credit

Before you do anything else, it's a good idea to check your credit report and score. Lenders use credit scores to help determine mortgage interest rates. This is important because with a higher interest rate, you could end up paying thousands of extra dollars towards interest.

For example, if you have a $300,000 mortgage with a 4% interest rate and 30-year term, you'll pay a total of $215,609 towards interest throughout the life of the loan. However, with a 3.5% interest rate on the same loan, you would pay $184,968 towards interest. In other words, you would save $30,641. Even though 0.5% might not seem like a lot, it can make a big difference.

Figure Out What You Can Afford

It's so important to really understand what's realistic and affordable for you. You may feel the urge to stretch a bit for that dream house that's just a bit outside your budget, but there can be painful consequences for buying a house you can't really afford.

→ Calculate how much you can afford → Know all the expenses

Start to Save

Depending on the type of mortgage you get, you'll need to save between 3% to 20% for a down payment. Plus, you'll need extra cash for closing costs. In other words, you'll have a lot of upfront expenses that you need to prepare for.

Create Your Budget

Your expenses will change when you become a homeowner, so it's important that you're prepared for those changes. Assuming your finances will become a little tighter with your mortgage, it's a good idea to live with your new "house budget" for a few months before you actually close on the new house. This can help you build up your emergency savings and get used to any significant spending changes.

Get Pre-Approved & Start House Hunting

Once you've checked your credit score, calculated your housing budget, and saved money for the home buying expenses, it's time to get pre-approved for a mortgage. When you get pre-approved for a mortgage, a Mortgage Originator will check your credit, verify your income, and approve the rest of your documentation. After that, the pre-approval amount usually lasts for 90 days. Now it's time to find (and buy!) your dream home.

Buying a home is a big deal and one of the most significant financial decisions most of us will ever make. It takes a lot of hard work to wind up in a great home you can afford, but once you have a place to call your own, you'll see that that effort was completely worthwhile.

Other Housing Options

Whether you want to move out of your parents' house or find a new place to rent, there are many options to consider. Once you have a good idea of the type of home you want, here are some places to help you start you search:

Classified Ads | Housing Guide | Ask Friends & Family | Websites | Rental Signs

When you rent a house or apartment, you pay a certain amount—called rent—each month to live there. Rent is usually paid in monthly installments based on a signed rental or lease agreement. This contract between you and your landlord specifies the rent amount, as well as how long you will be renting. The landlord is the person or company that owns the house or apartment.

When trying to find a house or apartment to rent, the amount of rent is an important consideration. However, there are other costs to think about. Try to estimate how much you will pay for each of the following:

- Insurance
- Maintenance Fees
- Security Deposit
- New Travel Expenses
- Pet Deposit or Fee
- Misc. Moving Expenses

Buying vs. Renting a Home

Benefits of Buying

- Privacy
- Usually a good investment
- More stable housing costs from year to year
- Pride in ownership and strong community ties
- Tax incentives
- Build equity

Cons of Buying

- Long-term commitment
- Maintenance and repair costs
- Lack of flexibility
- Usually more expensive than renting
- High up-front costs
- Foreclosure

Benefits of Renting

- Lower housing costs
- Shorter-term commitment
- No/minimal maintenance and repair costs

Cons of Renting

- No tax incentives
- No fixed housing costs
- No building of equity