



# Standard 1: Money Management

Goal 1.1: Understanding and using effective money management.

*With us, it's personal.™*



# Basic Tools for Personal Money Management

- Reconciling account statements from the Bank or Credit Card Company.
  - Virtually every company has access to on-line tools to assist customers in reconciling (or balancing) a statement.
  - Most banks include detailed instructions on every printed statement.
  - *But you can't reconcile a statement if you haven't tracked your checks, debit card and credit card usage.*



# Basic Tools for Personal Money Management

- **Building a personal cash flow statement.**
  - First step in building a personal budget.
  - Tells you the real truth about where the money comes from and, most importantly, where it's going.
  - [www.msnbc.msn.com](http://www.msnbc.msn.com) under Personal Finance
- **Calculating your personal net worth at a point in time.**
  - Assets – the market value of everything you own.
  - Liabilities – the total amount of all you owe.
  - Net Worth is simply the difference between the two.



# Basic Tools for Personal Money Management

- **Creating and using a personal budget.**
  - Nothing more than a detailed breakdown and **plan** for the amount of money coming in and the amount of money going out.
  - Provides data for planning purposes.
  - Hundreds of resources available on-line and from many financial institutions.
  - Variety of software programs are available, many of which will allow for the direct download of information from your financial institution.





# Standard 1: Money Management

Goal 1.2: Making responsible consumer choices.

*With us, it's personal.™*



# Analyzing the Options

- **What to do with disposable income?**
  - Value of the personal budget as a planning tool.
  - Paying yourself first – according to a survey of U.S. family finances completed in 2007, only 56.5 % of families saved.
- **Inflation Defined**
  - “Inflation is an increase in the price of a basket of goods and services that is representative of the economy as a whole.”
  - “Inflation is an upward movement in the average level of prices. Its opposite is deflation, a downward movement in the average level of prices. The boundary between inflation and deflation is price stability.”



# Analyzing the Options

- **The effect of inflation on financial decisions**
  - Rate of inflation must be considered in all financial planning
  - Inflation will diminish purchasing power unless income increases at the same or greater rate
    - COLA (cost of living adjustment)
    - [www.USinflationcalculator.com](http://www.USinflationcalculator.com)
  - Inflation over time will have an adverse effect on savings and investments and must be included when determining the goal of any savings or investment program.
  - Most, if not all financial planning tools give consideration to some type of inflation factor. The question is: what will inflation do 5, 10, or 20 years from now?



# Analyzing the Options

- **Insurance**
  - Life, auto, health
  - Deductibles
  - Co-pays
  - Stop-loss
  - Inclusions
  - Exclusions
  - Factors that affect rates
    - Age
    - Credit Score/Insurance Score



# Analyzing the Options

- **Renting/leasing versus buying**
  - Home
  - Vehicle
- **Cost/benefit analysis**
- **Appreciating or depreciating asset**





# Standard 1: Money Management

Goal 1.3: Credit and Debt

*With us, it's personal.™*



# Types of Credit

- **Installment Credit**

- Also called closed-end credit or non-revolving
- Requires that the borrower repay the principal amount of the loan in equal periodic payments, generally monthly.
- Can be secured or unsecured. If secured, the lender will hold title to the property (if one exists) until the loan is paid in full.
- Most common example of installment credit is a vehicle loan.
- These loans have fixed payments including principal and interest and the borrower has very little flexibility in the repayment plan.
- In February, 2009 the total outstanding balance for non-revolving consumer credit in the US was more than **\$1.6 TRILLION**.



# Types of Credit

- **Noninstallment Credit**

- Also called revolving or open-end credit.
- Comprised of single-payment loans and loans that permit the borrower to make irregular payments and to borrow additional funds without submitting a new credit application.
- Common types of noninstallment credit include payday loans, credit cards, overdraft protection lines of credit, HELOCs (home equity lines of credit), and personal lines of credit.
- In February, 2009 the total outstanding balance for revolving consumer credit in the US was more than **\$955 BILLION**.



# Types of Credit

- **Home Loans**
  - Most commonly referred to as a mortgage loan which really isn't accurate.
  - A mortgage is not a loan – it is a security instrument that you give to a lender that protects the lender's interest in your property.
  - You retain full title to the property even if your loan is secured by a mortgage.
  - The mortgage document gives the lender the right to sell the property to recover funds if you do not repay the loan.
  - Two basic types of home loans – conventional fixed rate and ARMs (adjustable rate mortgages).



# The Cost of Credit

- **Installment and noninstallment loans**
  - APR or annual percentage rate.
  - For variable rate loans, the index to which the rate is tied and how often the rate will change.
    - Common indexes are the Prime Rate, the rate of a specific Treasury Bill, or LIBOR (London Interbank Offered Rate).
  - Finance charge which will include interest as well as service charges, fees or other costs assessed by the lender.
  - Other charges that may not be included in the finance charge like annual fees for certain types of credit cards or revolving lines.
  - Penalties for late payments or going over your credit limit.



# The Cost of Credit

- **Home loans**

- Good Faith Estimate is required in any home loan transaction.
- GFE gives you an estimate of your settlement charges and loan terms.
- Items included in the GFE are:
  - Origination fee
  - The credit or charge (points) for the specific interest rate chosen
  - Fees for required services
  - Title insurance
  - Recording charges
  - Initial deposit to your escrow account
  - Daily interest charges
  - Homeowner's insurance premium



# Credit Reports

- **Experian, Equifax, and TransUnion provide credit reports.**
  - Credit reports are basically a history of your use of credit.
  - Credit reports include:
    - Identification information
    - Public record items
    - Collections
    - Inquiries
    - Current and historical account information
- **You are entitled to one free credit report from each reporting agency once a year. Go to [www.annualcreditreport.com](http://www.annualcreditreport.com).**
- **Monitoring the information on your credit report is critical to managing and maintaining your credit score.**



# Credit Score

- Each of the three reporting agencies uses a different, proprietary method for calculating your credit score.
- FICO, Beacon and Empirica will have different scores although generally in a fairly tight range.
- Five basic elements of your credit score:
  - Payment history (recency, frequency, severity)
  - How much you owe in comparison to your total credit limits.
  - How long you've had credit.
  - Your last application for credit.
  - Types of credit you use.



# Credit Score

- **Financial implications of your credit score:**
  - Insurance companies use them to determine your premium rates.
  - Employers use them in the hiring process.
  - Landlords use them in the screening process.
  - Utility companies use them to determine whether you will need a co-signer in order to turn on utility service.
  - The United States Military uses them in the enlistment process.
  - Lenders use them to approve or decline a loan application as well as using them to determine your rate of interest on certain types of loans.



# Credit Score

- **Credit scores range from 350 to 850.**
  - Scores above 750 are considered excellent.
  - Scores below 600 are considered poor.
  - The average score in the U.S. is 692 and in Idaho it's 705.
- **Items not considered in a credit score:**
  - Medical information unless you give consent.
  - Debts more than 7 years old.
  - For employers – no information on age, marital status, or race is provided.
  - Bankruptcies over 10 years old.

