KEYS TO FINANCIAL SUCCESS

Consumer Credit Counseling of Beloit/Janesville
(608)365-1244
Be Intentional

- **Definition of intention**
  - Something done deliberately
  - A course of action that one tends to follow
  - Aim that guides action

- Become financially literate

- Determine to spend less than you earn.
Stick to a Budget

- Budgets are the vehicle to reaching your goals
- View budgets as a tool
- Budgeting can be a very rewarding process
- Budgets can reduce stress in dealing with your finances
Set Goals

Key To Developing Goals

- Goals should be flexible
- Goals should be personal to you and your family
- Make your goals as specific as possible
- Write down your short term and long term goals
- Goals are the foundation of your budget
- Life happens, there are a lot of things we cannot control. Budgeting allows us to control the things we can and to be prepared for the unexpected – It starts with a goal.
Budgeting

- **Gross Income**- is amount of money you make before any deductions.

- **Net Income**- is the amount of money you have to work with to pay your expenses each month. *It is usually 70% to 80% of your gross income.*
Budgeting

- **Fixed Expenses** are expenses that are fixed and do not vary from month to month
  - car, rent, mortgage, utilities

- **Flexible Expenses** are expenses that you have total control on amounts that are spend. This category is really where the budgeting process is most important
Periodic Expenses are those expenses that do not occur every month, but happen sometime during the year

- insurance, clothes, gifts, repairs
Example

- Income (Net)
  $1600

- Yearly Student Loan/Grant
  $4000
Monthly Expenses

- Rent $400
- Gas $200
- Car payment $200
- Groceries $300
- Utilities $125
- ATT/Charter Bundle $135
- Cell Phone $65
- Car Insurance $80
- Hair cut $20
- Cigarettes $100
- TOTAL $1625
## Periodic Expenses

<table>
<thead>
<tr>
<th>Category</th>
<th>Estimated Cost:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Car Maintenance</strong></td>
<td></td>
</tr>
<tr>
<td>Tires, Oil changes, Washes/Wipers, Brakes, etc.</td>
<td>$400/4 yrs, $100/yr, misc $300/yr</td>
</tr>
<tr>
<td><strong>Registration</strong></td>
<td>$7</td>
</tr>
<tr>
<td><strong>Dining out/Food at Work</strong></td>
<td>$60</td>
</tr>
<tr>
<td><strong>Clothing</strong></td>
<td>$20</td>
</tr>
<tr>
<td><strong>Prescriptions/over the counter meds</strong></td>
<td>$8</td>
</tr>
<tr>
<td><strong>Doctor, Dental, Optical</strong></td>
<td>$25</td>
</tr>
<tr>
<td><strong>School Supplies</strong></td>
<td>$42</td>
</tr>
<tr>
<td><strong>Entertainment</strong> (Red box, DVD's, Netflix, music, movies)</td>
<td>$16</td>
</tr>
<tr>
<td><strong>Hobbies/sports</strong> (hunting, fishing, bowling, golf, crafts)</td>
<td>$8</td>
</tr>
<tr>
<td><strong>Gifts</strong> (Christmas, Thanksgiving, Easter, B-Days, Mother’s/Father’s Day…)</td>
<td>$42</td>
</tr>
<tr>
<td><strong>Travel – camping, visiting family (extra gas)</strong></td>
<td>$30</td>
</tr>
<tr>
<td><strong>Postage/Computer ink and paper</strong></td>
<td>$8</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$308</strong></td>
</tr>
</tbody>
</table>
Actual Spending

- Income (Net) $1600
- Monthly Expenses $1625
- Periodic Expenses $308

TOTAL -$333

What are you going to do?
- Spending Cuts? Extra job?

- $4000 Student loan $333
Have a Savings Plan

- 5-10% - Before you pay your bills
  - Automatically deducted
  - Deposited into separate account
  - Even if only $20
KNOW YOUR CREDIT SCORE

- A CREDIT SCORE IS A THREE DIGIT NUMBER WHICH HELPS LENDERS AND OTHERS PREDICT HOW LIKELY YOU ARE TO MAKE YOUR CREDIT PAYMENTS ON TIME.
- THE CREDIT SCORING SYSTEM WAS DEVELOPED BY THE FAIR ISSAC CORPORATION IN 1989.
- FAIR ISSAC DEVELOPED THIS SCORING SYSTEM TO GIVE LENDERS A SHORTCUT FOR JUDGING CREDIT WORTHINESS.
Why is a Credit Score Important?

- IT EFFECTS EVERYTHING
  - Who hires you to who insures you
    - Rent, Auto, Home, Career, Cost

- If your credit is good – lenders will compete for your business.
CREDIT REPORTS

- Trans Union - Midwest
- Experian - West
- Equifax - East
What is a Credit Report?

- Confirms specific personal information
- Summary of creditor experience with a borrower
- Provides specific detail about on time or missed payments, public records, collections, judgments or inquiries
“The Five Information Zones”

- 1. Identifying (Personal) Information
- 2. Public Record (Legal Items)
- 3. Collection Items
- 4. Trade Line (Account) Information
- 5. Inquiries
What is a Credit Score?

- A number that summarizes your overall credit standing.
- 45 different factors make up the score.
- Used as a predictor of how you will repay in the future.
- Lenders use credit scores to evaluate borrowers because it's fast and objective. They set a minimum
Factors Affecting My Score

- **Payment History** (35%)
- **Outstanding Debt (Amount Owed)** (30%)
  - Utilization Rate – below 30%
- **Length of Credit History** (15%)
  - Longer the better – do not close credit cards
- **Recent Inquiries** (10%)
  - Voluntary/Involuntary for last 2 years
  * People with 6 inquires are 8x more likely to file bankruptcy than those with none.
- **Types of Credit in Use** (10%)
  - Ideally 3-5 credit cards, installment loan, mortgage loan
Why Do Scores Decrease?

- Delinquency rating hits the credit record
- Significant balance increases
- Recent inquiries
- Opening of new accounts
- Public record items
“DAMAGE POINTS”

- Maxed-out card
  - 10 to 45 pts.
- 30-day late payment
  - 60 to 110 pts.
- Debt settlement
  - 45 to 125 pts.
- Foreclosure
  - 85 to 160 pts.
- Bankruptcy
  - 130 to 240 pts.
Why Do Scores Increase?

- Time

- A currently delinquent trade line no longer appears (7-10 years)

- Significant decrease in outstanding balances

- No quick fixes
Improving Your Score!!!!!!!!!!!!!!!!!!!!!!!!

- Pay your bills on time.
- If behind, get current, stay current.
- Keep balance low.
- Pay off debt rather than move it around.
- Don’t close used cards.
- Don’t open a number of new cards just to increase available credit.
- Pay off collections.
Too Good to Pass Up???

- $2000 at 18% (Best Buy is 27.9, Sears 25.24)
  - $40 a month – Affordable right????
  - $30 - interest/$10 – purchase
  - 18% divided by 360 days = .05% per day times 30 days in a month times outstanding balance of $2000 equals $30 in interest.
  - IF you pay minimum – 30 yrs to pay off, paying almost $5000 in interest for total cost of almost $7000.
  - Pay Day Loans 400 – 2000%
PAYDAY LOAN EXAMPLE

$800.00 AMOUNT BORROWED
$976.00 AMOUNT TO BE REPAID IN TWO WEEKS
$176.00 PAID IN FINANCE CHARGES (INTEREST) IN TWO WEEKS

573.57 % INTEREST RATE
# How Credit Scores Affect a 30-Year Mortgage

<table>
<thead>
<tr>
<th>Credit Score</th>
<th>APR</th>
<th>Payment</th>
<th>Total Interest paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>760-850</td>
<td>4.62%</td>
<td>$514</td>
<td>$84,047</td>
</tr>
<tr>
<td>700-759</td>
<td>4.85%</td>
<td>$527</td>
<td>$89,882</td>
</tr>
<tr>
<td>680-699</td>
<td>5.02%</td>
<td>$538</td>
<td>$93,784</td>
</tr>
<tr>
<td>660-679</td>
<td>5.24%</td>
<td>$551</td>
<td>$98,526</td>
</tr>
<tr>
<td>640-659</td>
<td>5.67%</td>
<td>$578</td>
<td>$108,237</td>
</tr>
<tr>
<td>620-639</td>
<td>6.22%</td>
<td>$614</td>
<td>$120,886</td>
</tr>
</tbody>
</table>

Cost of a lower score = $36,839

Source: Fair Isaac Corporation 2010
Credit Can Enhance Your Life

- When used wisely, credit can help you reach your goals.
- Credit is not bad or evil, it’s a tool that offers you choices. The choices you make with credit will have a positive or negative affect on your life.
FREE CREDIT REPORTS

- ONCE A YEAR EVERYONE IS ALLOWED A FREE COPY OF THEIR CREDIT REPORT FROM ALL THREE CREDIT BUREAUS. (YOU STILL MUST PAY A FEE FOR YOUR SCORE.)
  - WWW.ANNUALCREDITREPORT.COM
  - MAIL IN A REQUEST FORM
  - CALL 1-877-322-8228
Credit Report: Errors, Disputes, Identity Theft

**Fair Credit Reporting Act (FCRA)**

**Errors & Disputes:** The right to dispute and correct inaccurate information.

- The right to receive a copy if: turned down within 60 days, unemployed and looking for a job, report inaccurate due to fraud, homeless.

- Contact CRA in writing, keep copies, send certified, less than 5 items per letter.

- If information inaccurate, must be removed within 30 days of notice.
Credit Report: **Accurate Negative Information**

Can generally stay on report for **7 years**.

**Exceptions:** Criminal convictions, Bankruptcy (10 yrs),

Info on lawsuit or unpaid judgment can be reported for **7 yrs** or until the statue of limitations runs out whichever is less.
Credit Report: Future

- On Time Payments
- Monitor Report Yearly
- If Inaccurate, file dispute
- Use Credit Wisely
Credit Can Enhance Your Life

- When used wisely, credit can help you reach your goals
- Credit is not bad or evil, it’s a tool that offers you choices. The choices you make with credit will have a positive or negative affect on your life
Ways to protect yourself from ID Theft

- Destroy all unwanted or unneeded documents
- Secure your mail
- Protect your Social Security number
- Don’t leave receipts laying around
- Review your credit report
- Keep accurate records
- Keep your files in a safe place
Keys to Financial Success

- Make a decision to be intentional
- Stick to a budget
- Set Goals
- Have a savings account
- Know your credit report and take steps to build it
- Protect yourself
KEYS TO FINANCIAL SUCCESS

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