



**HARVARD UNIVERSITY  
EMPLOYEES CREDIT UNION**

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# Personal Financial Fitness

**Harvard Medical School**

# Presentation Objectives

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- Financial Transition to Graduate School
- Managing Your Finances & Enjoying Your Life
- Understanding Credit and Credit Scoring
- Additional Resources

# About the Credit Union

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The Harvard University Employees Credit Union is a financial institution exclusively serving the students, alumni, faculty, staff, alumni and students of Harvard University and the affiliated hospitals. Family members are also eligible.

- **Member Owned**

- Every member is an equal shareholder
- Volunteer Board of Directors elected by the membership

- **Safety and Stability**

- Well capitalized
- Federally insured by the National Credit Union Administration (NCUA)

- **Cooperative Model**

- All earnings returned to the members in the form of better value and enhanced services.
- Customers = owners/ shareholders

# Knowledge

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*“Education is the most powerful weapon which you can use to change the world [and yourself]”*

*Nelson Mandela*

The more you know about the way you approach money and the way advertisers approach you the more control you will have.

# Harvard Student Sources of Financial Education

- Sources of consumer finance education
  - **Formal Program – 15%**
  - None – 41%
  - Parents – 34%
  - Friends – 11%
- **Self rating of knowledge of consumer finance topics:**
  - Personal Budgeting: 65% - poor to average
  - Personal Credit: 95% - poor to average (27% poor)
  - Taxes & Insurance: 97% - poor to average (42% poor)
  - Investing: 95% - poor to average (59% poor)

Source: Moneywise Survey - winter 2012 –1,872 Harvard students

# Spending Choices

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- Consumer spending decisions are about 95% related to emotional needs.
  - Many factors impact consumer behavior
  - Understanding why we buy what we buy can help us make smart decisions in the future

# Financial Transition Plan

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- Know where you are and where you are going
  - Where are you now – financially
    - Income & expenses
    - Savings & debt
      - Interest rates
  - Time available
  - Where do you want to be



# Why Have a Spending Plan?

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- Operating without a budget is like driving a car without a steering wheel...
- A plan to meet your goals
- Minimize anxiety of how to pay bills





# Building A Budget

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- Money IN

- Determine your income
- Identify other sources of money

- Money OUT

- Estimate expenses by category

- Savings
- Housing
- Food
- Clothing
- Utilities (e.g. phone, heat)
- Transportation
- Healthcare
- Miscellaneous
- Taxes



# Semester Budget Kickoff

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The HMS student budget allows for a living expense allowance of

**\$2,140 a month.**

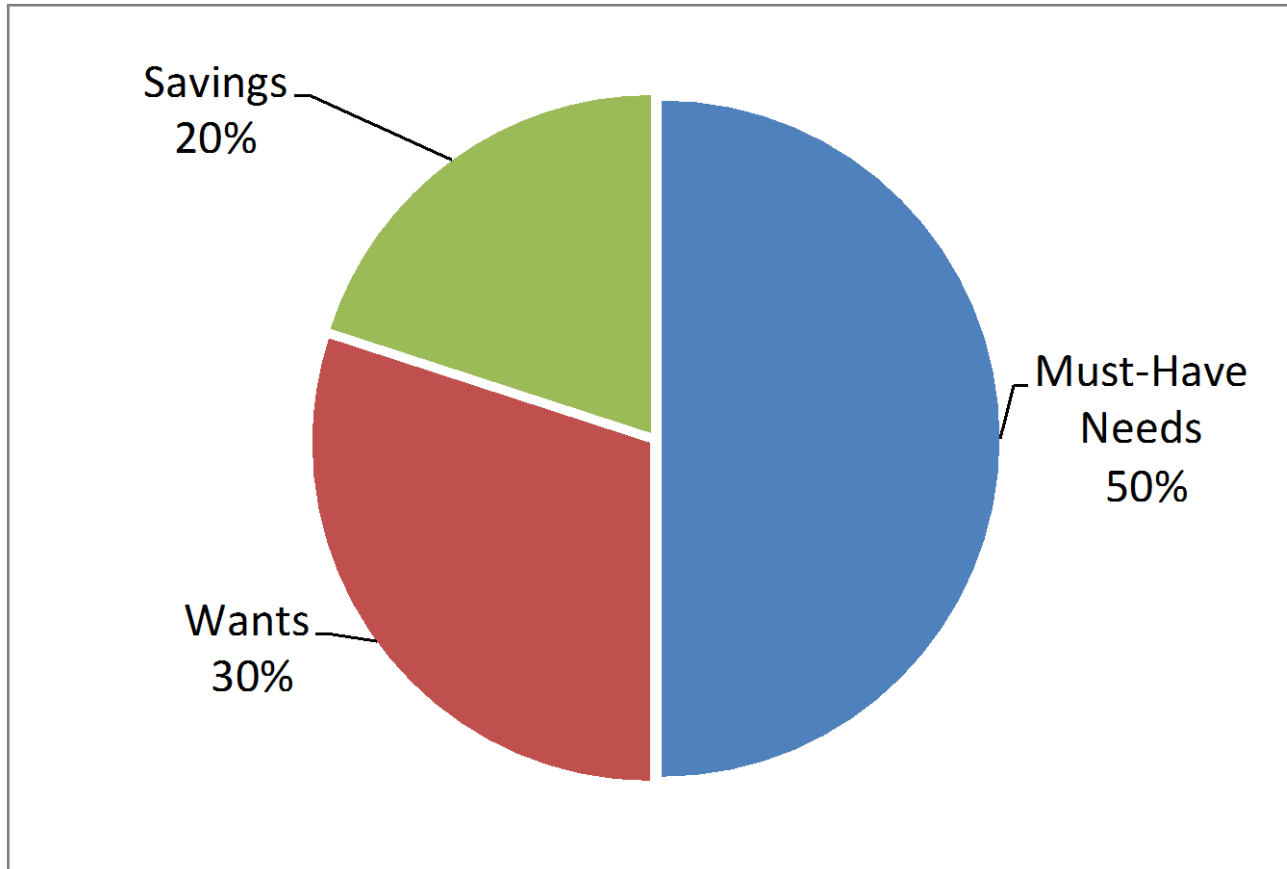
This includes housing, utilities, food, clothing, laundry and travel.

# Impact of Small Purchases to Budget

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- Coffee \$2.50/ day x 7 = \$805 per year
- Lunch \$10/ three times week = \$1,380 per year
- Dinner \$25/ twice per week = \$2,300 per year
  
- Total for full academic year - **\$4,485**  
(Over 20% of full year's living budget)
  
- Determine what purchases meet your goals.

# Spending Plan Breakdown



# Goals: Where do you want to be

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- A realistic goal is SMART (*in more ways than one*)
  - Specific
  - Measurable
  - Adjustable
  - Relevant
  - Time-related
- Be realistic
- Can it be done with current or proposed resources and expenses

# Life time savings goals

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- Stage 1 – Save \$1,000
- Stage 2- Steal from tomorrow debt
- Stage 3 – Build 6 month security fund to pay must haves
- Stage 4 – Lifetime of wealth
  - Save for retirement
  - Save for your other dreams
    - Residence
    - Children's Education
    - Other



# Barriers to meeting goals

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- What challenges you the most in making progress toward your financial goals?
  - Impulse buying
  - Unplanned spending and use of credit cards
  - Poor spending habits
  - Loss of job
  - Financial emergencies



# Advertising 101

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- On-line
- In the store and beyond
- The purpose of advertising is to get us to buy
  - Use emotional appeals and present certain images or lifestyles
- You cannot avoid advertising, but you can separate emotional appeals from the true value of the product



# Magic of the 4th degree

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Needs vs. Wants / Ask yourself the following.

- 1) Do I really need it?
- 2) Do I have to have it today?
- 3) What will happen if I don't buy it now?  
(for better or worse)
- 4) Why have I gotten along without it until now?

# Credit Card Caution

*Credit Card* *\kred'-et kard\ n.:*

**A powerful but dangerous tool**

**A means for buying something you don't need, at a price you can't afford, with money you don't have.**



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# Cost of Credit Card Minimum Payment

- Making only minimum monthly payment will take years to payoff balance  
(assuming no new borrowing)

- \$2,000 balance
  - 18% interest rate
  - minimum payment
  - Over 30 years to payoff
  - \$7,000 total paid

**\$50 more per month  
Reduces payoff  
time to Less than  
3 years**

- Add \$50/ month to payment

# The Big Chill

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- *Creating your budget isn't sufficient if you want to succeed financially. You must STICK to your budget!!*
  - *Try the "BIG CHILL" – see if you can follow a budget for just a weekend. On a Thursday night, try the following: Calculate what you can afford to spend for the weekend in cash*
  - *Withdraw that amount of money*
- *Put all your "plastic" – credit cards, ATM cards, debit cards – in a metal bowl, fill it with water and freeze*



# Budget Saving Tips

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- Start with Goal –
  - \$50/ month or less than \$2/day
- Start with groceries, dining out, clothes, cosmetics, auto, household
- Example - Groceries
  - Keep away from convenience stores
  - Shop with and stick to list
  - Review and utilize unit pricing
  - Eat before you go grocery shopping
  - Avoid buying items from the middle shelves
  - Never buy non-food items at a grocery store



# Managing your plan

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- Review and update
  - Does it align with your goals?
- Live within your means
  - Prioritize spending
    - Reduce
    - Substitute
    - Postpone
    - Forgo
- Understand tradeoffs

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# Personal Credit and Credit Scoring

What you don't know can hurt you

# Credit Basics

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- Credit – Utilizing something now (e.g. education, car or home) and paying for it over a period of time.
- 3 C's of Credit
  - Character – How well do you honor your financial obligations
  - Capacity – How easy will it be for you to repay the debt
  - Collateral – Will the loan be secured by something



# What's on the Credit Report?

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- **Personal Information**

- Names, current & previous addresses, employers, date of birth

- **Credit Information**

- Credit granted and history & timeliness of repayment, revolving, installment or open ended, payment patterns for past 7 years

- **Public Record Information**

- Records found on public documents: bankruptcies, collection accounts, overdue child support

- **Inquiries**

- List of creditors and agencies who have requested your credit report

# Who Reviews Your Credit?

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- Employers
- Landlords
- Automotive dealers
- Professional licensing boards
- Insurance companies
- Financial lenders
- Others



# Getting Your Credit Report

- [www.Annualcreditreport.com](http://www.Annualcreditreport.com)
  - Receive a free copy of report from each of 3 bureaus
    - order report every 4 months to monitor
- Must provide free if denied credit within 60 days
- Review for accuracy annually
- Dispute incorrect information
- **MYFICO.COM**



# Annualcreditreport.com

The screenshot shows a web browser displaying the AnnualCreditReport.com website. The browser's address bar shows the URL <https://www.annualcreditreport.com/index.action>. The website header includes the logo and the tagline "The only source for your free credit reports. Authorized by Federal law." A navigation menu contains links for Home, All about credit reports, Request yours now!, What to look for, Protect your identity, Frequently asked questions, and Contact us. The main content area features a blue banner with the text "Spot identity theft early. Review your credit reports." and a sub-headline "Suspicious activity or accounts you don't recognize can be signs of identity theft. Review your credit reports to catch problems early." Below this is a button labeled "Learn more about Identity Theft". A secondary navigation bar includes "PLAY", "SPOT IDENTITY THEFT", "GOOD CREDIT", "DON'T BE FOOLED", "MORE THAN A SCORE", and "NOT LIKE THE OTHERS". The page is divided into three columns: "Your credit reports matter." with a list of benefits and a "Request your free credit reports" button; "FREE Credit Reports. Federal law allows you to:" with a list of services; and "BROUGHT TO YOU BY" featuring logos for Experian, TransUnion, and EQUIFAX. The footer contains links for "About this site", "Privacy", "Security", and "Terms of use", along with a "Secure Transaction" notice and a "VERIFIED BY GeoTrust Central Source" badge. The Windows taskbar at the bottom shows several open applications, including "Annual Credit R...", "Inbox - tom\_m...", "RE: DRAFT - 20...", "1 Reminder", "Microsoft Excel ...", "DRAFT - 2014 - ...", and "2014- sept-wel...", with the system clock showing 12:51 PM.

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

Home | All about credit reports | Request yours now! | What to look for | Protect your identity | Frequently asked questions | Contact us

Spot identity theft early.  
Review your credit reports.

Suspicious activity or accounts you don't recognize can be signs of identity theft. Review your credit reports to catch problems early.

Learn more about Identity Theft

PLAY | SPOT IDENTITY THEFT | GOOD CREDIT | DON'T BE FOOLED | MORE THAN A SCORE | NOT LIKE THE OTHERS

**Your credit reports matter.**

- Credit reports may affect your mortgage rates, credit card approvals, apartment requests, or even your job application.
- Reviewing credit reports helps you catch signs of identity theft early.

Request your free credit reports

**FREE Credit Reports. Federal law allows you to:**

- Get a free copy of your credit report every 12 months from each credit reporting company.
- Ensure that the information on all of your credit reports is correct and up to date.

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Secure Transaction: For your protection, this website is secured with the highest level of SSL Certificate encryption.

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Annual Credit R... | Inbox - tom\_m... | RE: DRAFT - 20... | 1 Reminder | Microsoft Excel ... | DRAFT - 2014 - ... | 2014- sept-wel... | 12:51 PM

# What Is Your Credit Score?

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- Forecast of how well you will repay a loan as agreed during the next 24 months – the higher the score, the better the forecast that you will repay
- Snapshot of your credit history at a particular point in time
- Only includes factors related to an individual's credit
- Always changing



# Credit Score – FICO Ranges

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- FICO Scores range – 300 to 850
- Only 18% of population have a FICO Score of 800 or better
- 7% of population have scores below 500

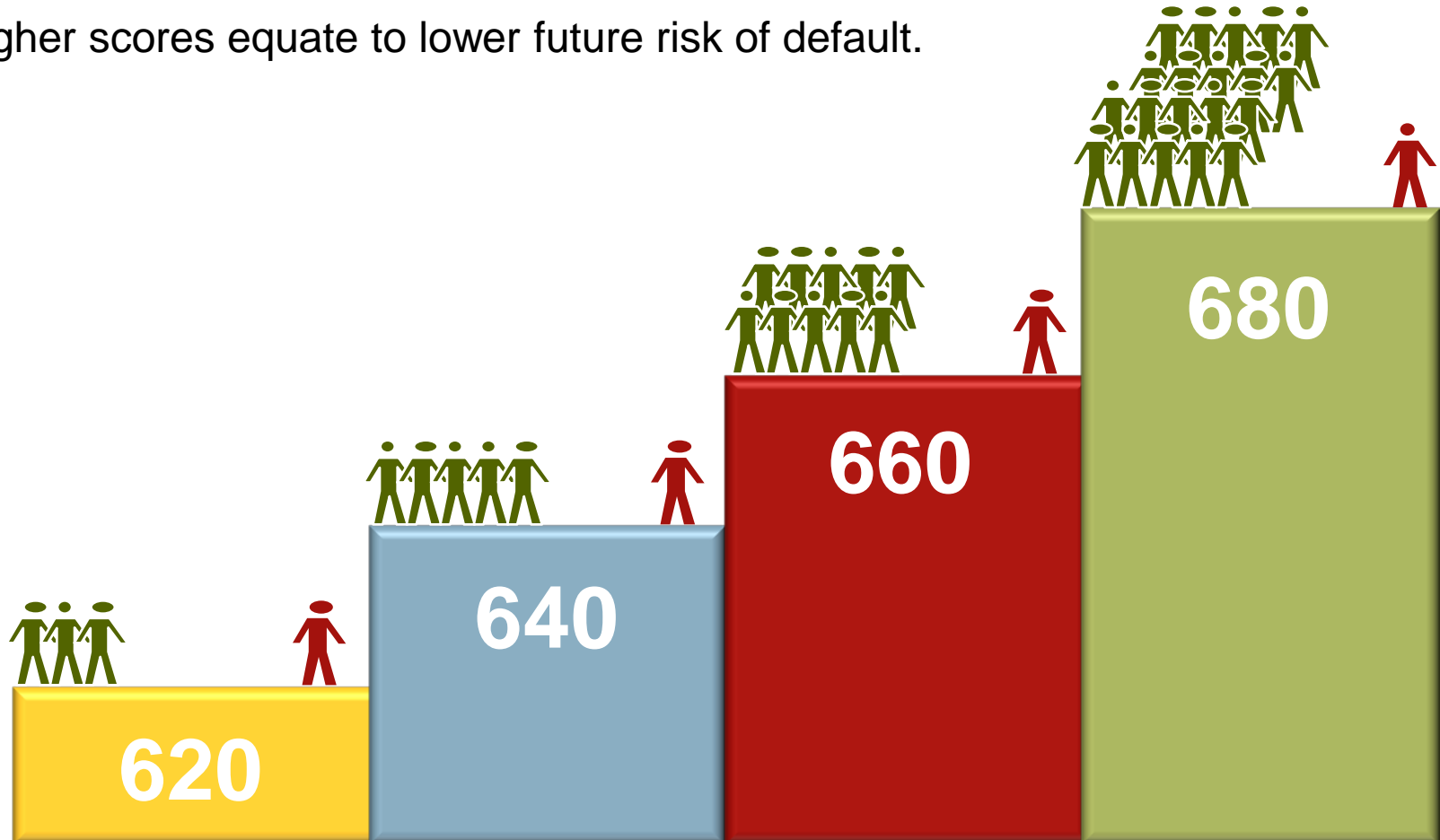
# What Is Your Credit Score?

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- Forecast of how well you will repay a loan as agreed during the next 24 months
- Snapshot of your credit history at a particular point in time - Always changing
- Only includes factors related to an individual's credit
- FICO = Credit Scoring
  - 90% of lenders use FICO scores

# FICO® Scores - Designed to Rank Order Risk

- » The FICO® score is a summary of the information on a consumer's credit file.
- » It is a 3-digit number ranging from 300-850®
- » Higher scores equate to lower future risk of default.



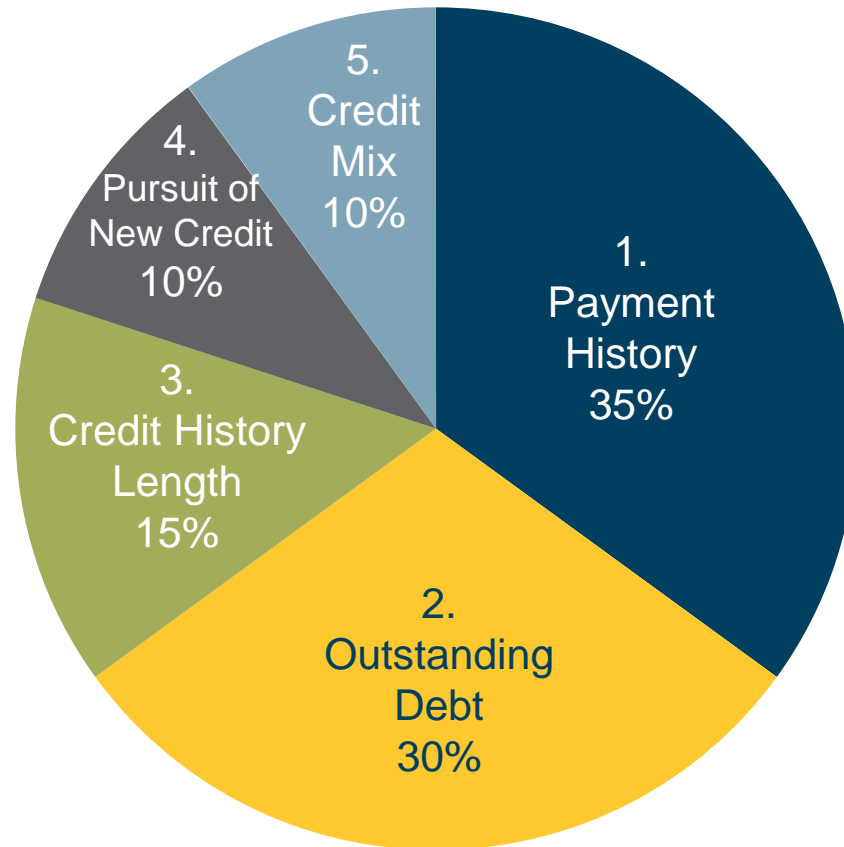


# Credit Impact: Rates and Payments

<b>Credit Score</b>	<b>APR</b>	<b>Monthly Payment</b>
720-850	3.35%	\$731
690-719	4.77%	\$747
660-689	6.82%	\$770
620-659	10.41%	\$812
590-619	15.63%	\$874
500-589	17.02%	\$892
<500	Not eligible	

Source: Myfico.com – 36 month car loan - \$25,000

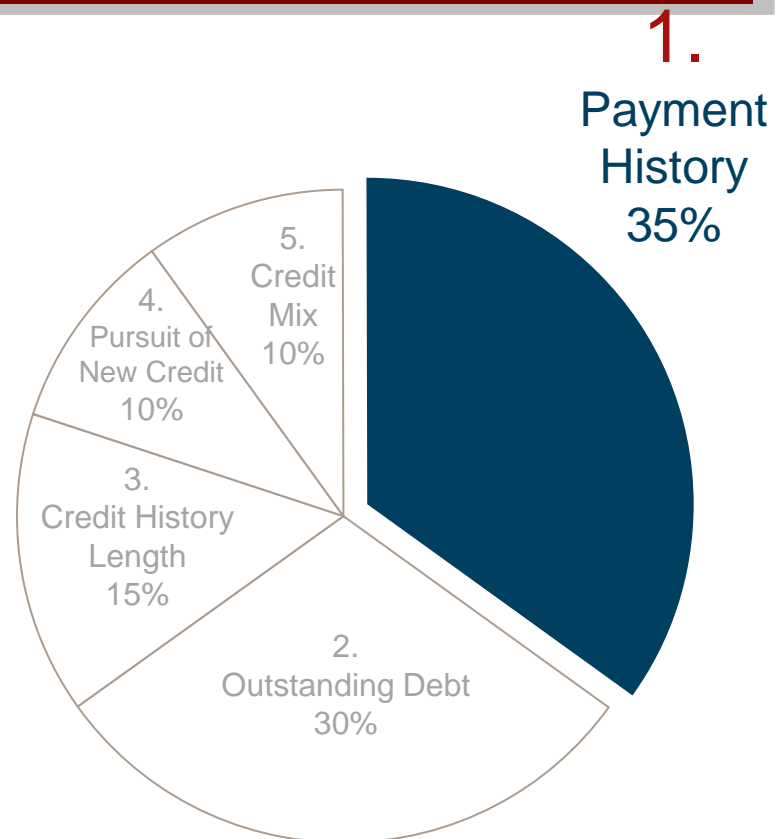
# FICO Credit Score Factors



# Payment History

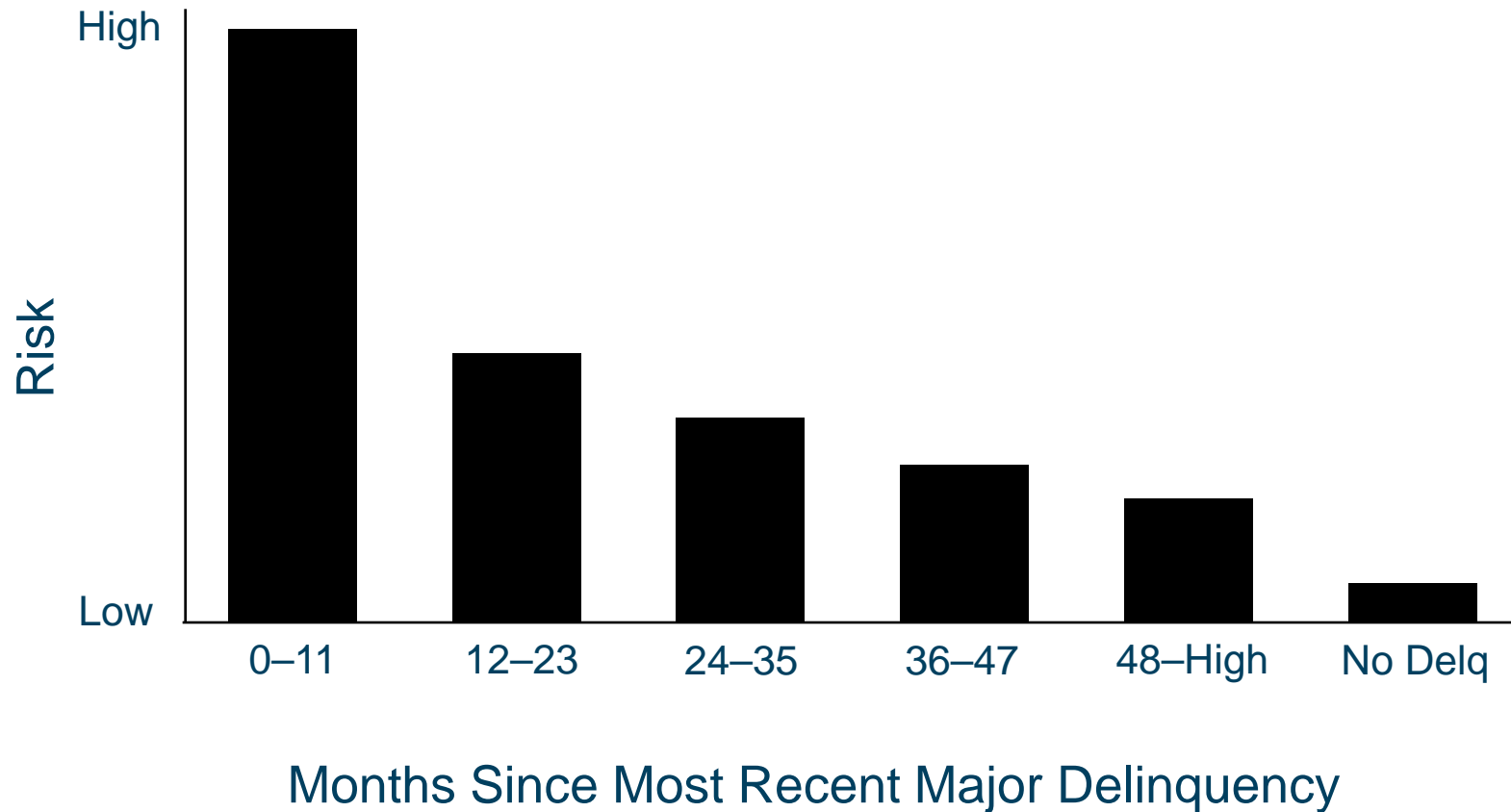
## Key Factors

- **How recent** is the most recent delinquency, collection or public record item?
- **How severe** was the worst delinquency—30 days, 90 days?
- **How many** credit obligations have been delinquent?



# Payment History

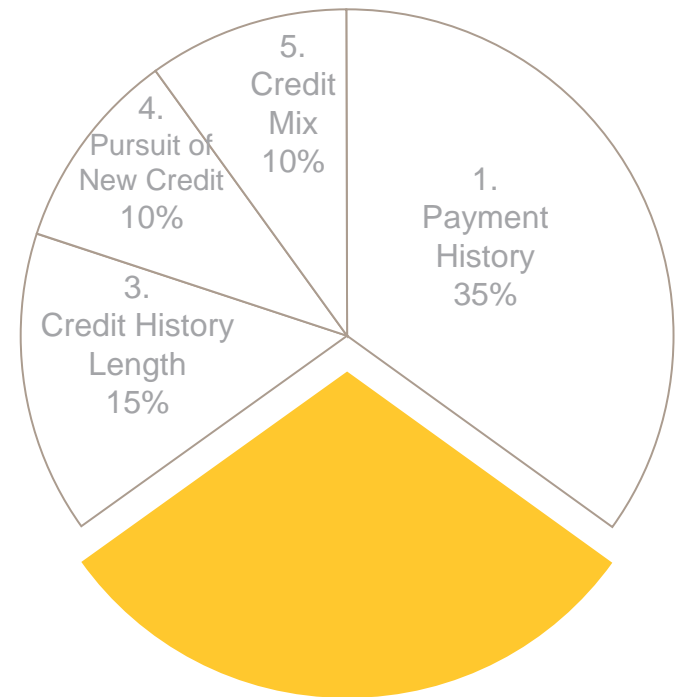
## Example



# Outstanding Debt

## Key Factors

- How much does the consumer owe creditors?
- What percentage of available credit card limits is the consumer using?
- What percentage is outstanding on open installment loans?



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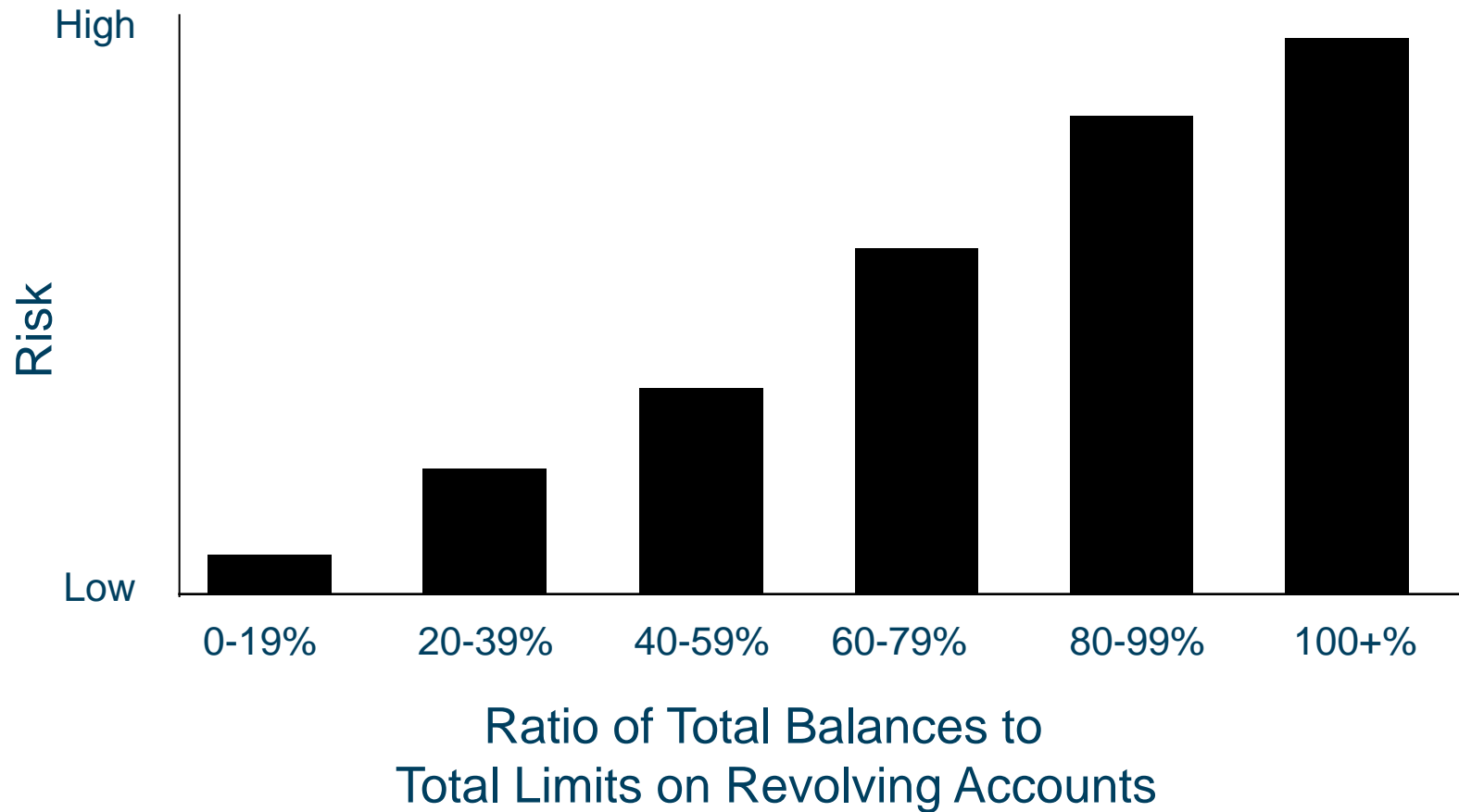
Outstanding Debt



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# Outstanding Debt

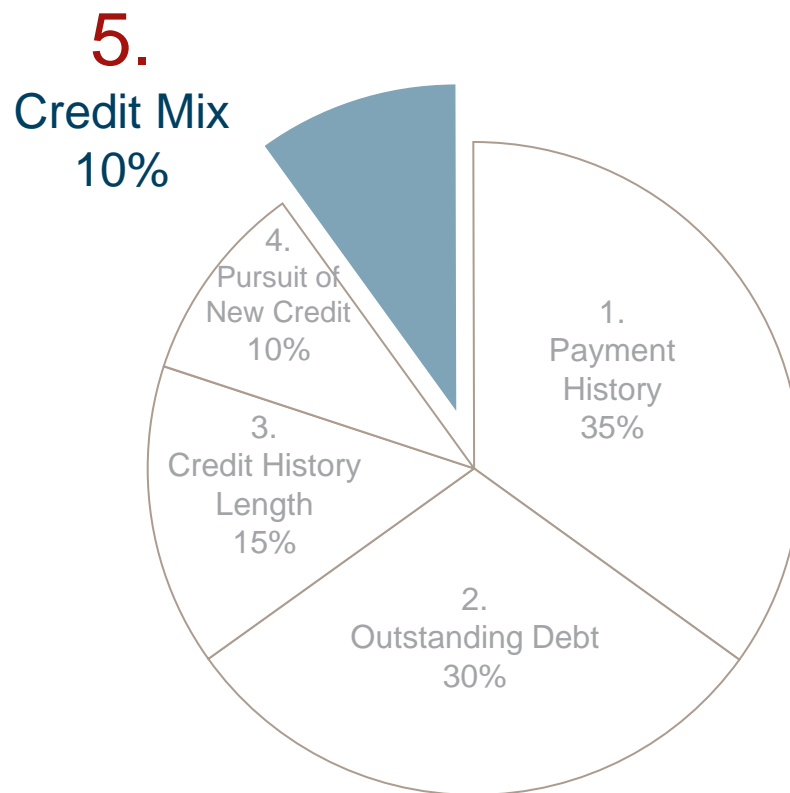
## Example



# Credit Mix

## Key Factors

- What is the mix of credit product types?
- Revolving credit—number of bankcard trade lines
- Installment credit—percent of trade lines that are installment loans



# Credit Impact: Slow Payments

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One 60 day delinquency can decrease a credit score by...

- 50
- 75
- 100 points



# Costs increase for all future borrowing

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- Auto loan - \$100 - \$200 extra per month
- Mortgage costs – extra \$200 to \$300 per month per \$100,000 borrowed
- Insurance costs, credit card costs, other borrowing - \$100's extra per month

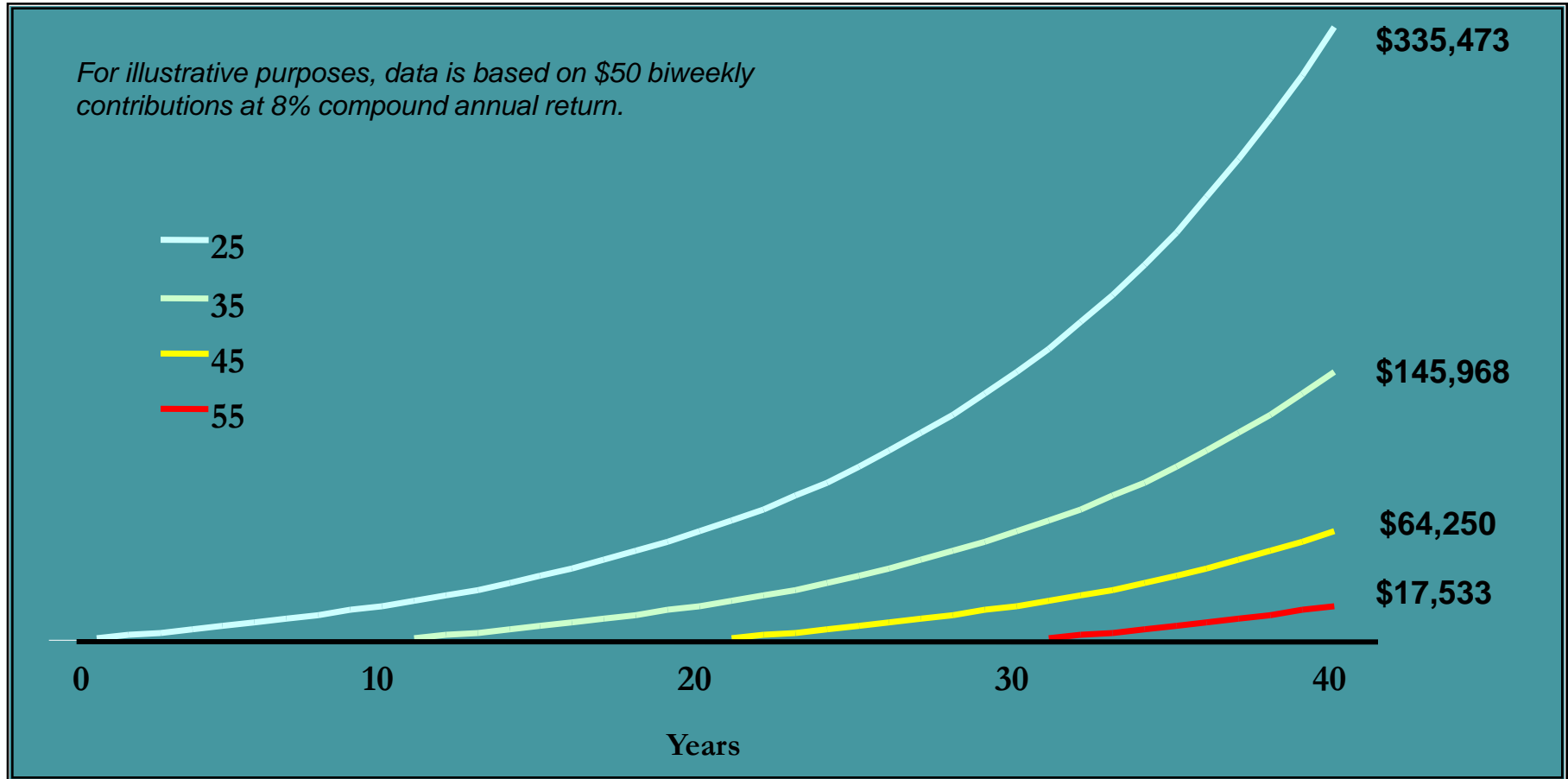
# Time is On Your Side

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- **Twin 1:** From age 25 to 35 (10 years) save \$100 per month then stop. (\$12,000)
- **Twin 2:** From age 36 to 65 (30 years) save \$100 per month (\$36,000)
- Who will have more?
  - Twin 1: \$174,928 will be saved – over \$62,000 more than twin 2

Assumes 8% annual return

# “The most powerful force in the universe” – Albert Einstein



# HUECU's BALANCE Counseling

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BALANCE is a financial education and counseling service available as a benefit of the Harvard University Credit Union

## Money management counseling

- Personal Budget Development
- Debt repayment options
- Credit report review
- 888-456-2227 - Harvard University CU Referral

# Managing Finances Summary

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- Create a plan to meet your goals
  - Drive the car with a steering wheel
- Avoid impulse purchases
  - The Big Chill
- Tread carefully when using credit
  - Review your credit report
- Ask for help



# Contact Information

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## Thank You!

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