Personal Money Management

Focus: Starting and following a Budget and Managing Personal Credit.
Presentation Objectives

- Understanding Your Financial Personality
  - Why and where do you spend money?
- Developing a Personal Spending Plan
  - Starting and following a budget.
- Money Saving Tips
- Personal Credit
  - Scores, impacts, tips, your questions.
- Contact Information
About the Credit Union

- The Harvard University Employees Credit Union is a financial institution exclusively serving the students, alumni, faculty, and staff 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**
  - Member deposits used to fund loans for other members.
  - All earnings returned to the members in the form of better value and enhanced services.
Learning to Handle Money

Harvard Student Survey

Sources of consumer finance education

- Formal Program – 15%
- None – 41%
- Parents – 34%
- Friends – 11%

“Most people learn how to handle finances from their parents; but this is a problem because the world has changed since they were growing up.”

Elizabeth Warren – Harvard Law School Professor
Consumer Finance Education

- 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)

- “There has been a devastating lack of attention, urgency and seriousness of taking on [financial literacy]”
  
  Arne Duncan –
  U.S. Secretary of Education
Spending Choices

- Consumer spending decisions are about 95% related to emotional needs.
  - “Retail Therapy” for example.
- Many factors impact consumer behavior.
  - Specific to each individual.
- Understanding why we buy what we buy can help us make smart decisions in the future.
  - Universal.
Advertising 101

- In the store and beyond; online, in apps, social media, billboards, public transportation, magazines, newspapers, T.V...

- Leela: Didn't you have ads in the 21st century?"
- Fry: Well sure, but not in our dreams. Only on TV and radio, and in magazines, and movies, and at ball games... and on buses and milk cartons and t-shirts, and bananas and written on the sky. But not in dreams, no siree.

- The purpose of advertising is to get us to buy.
  - Use emotional appeals and present certain images or lifestyles.

- You cannot avoid advertising (unfortunately) but you can separate emotional appeals from the true value of the product.
Financial Personality

- Critical to understand your financial values.

- Values – fundamental beliefs about what you regard as important
  - Employment, family life, spiritual matters, personal health, education, public policy, credit use, money.

- Values serve as the basis for budgeting and setting your financial goals.
Why is utilizing a budget important?

- Living without a budget is like building a house without a foundation.
- Everything built atop it is flimsy.
- At a certain point what is built will crumble.
What Do You Spend Money On?

- Housing
  - Rent, heat, electricity, water, phone, internet, etc.
- Taxes
- Food
  - Groceries, dining out
- Transportation
  - (auto loan, gas, insurance, parking, T-pass)
- Clothing
- Entertainment
  - Phone, games, movies, sports, vacation etc.
- Debt Payments
- Child Care
Budget Kickoff

The HMS student budget allows for a living expense allowance of

$2010.00 a month.

This includes;

housing, utilities, food, clothing, laundry and travel.
Spending Plan Breakdown

- First take a look at how you spend your money. Take an average week and see where and how much of your money goes to maintaining yourself.
- Extrapolate to a month worth of spending.
- Is that sustainable?
- Take stock of that answer and set up a budget.
- Adjust as needed by what is in line with your goals/priorities/values.
Managing your plan

- You might not be under budget the first or even second month you try. Review and Update your plan but you should be on point after a couple of revisions, otherwise you’ve missed the point.
- Understand tradeoffs
- Live within your means
- Prioritize spending
  - Reduce
  - Substitute
  - Postpone
  - Forgo
- Increase your income
Give yourself the 4th degree

- 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?
Life-time savings goals

- Stage 1 – Save $1,000
- Stage 2 – Pay off 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
    - Heart’s Desire
Barriers to meeting goals

- What challenges you the most in making progress toward your financial goals?
  - Not having a spending plan/budget
  - Impulse buying
  - Poor use of credit cards
  - Unsustainable spending habits

- All lead to not being able to cope with
  - Loss of job
  - Emergencies
Success in meeting goals

- What helps you make progress to meeting your goals?
  - Having a plan
  - Disciplined approach to meeting objectives
  - Seeing results/ progress
  - Having goals to aspire towards
Budget Saving Tips

- **Start with Goal –**
  - Saving $50/month or about $2/day
- **Start with groceries, dining out, clothes, cosmetics, household items, transportation.**
- **Example - Groceries**
  - Keep away from convenience stores
  - Shop with and stick to a list
  - Eat before you go grocery shopping
  - Avoid buying items from the middle shelves
  - Never buy non-food items at a grocery store
Impact of Small Purchases to Budget

- Coffee $2.50/ day x 7 = $910 per year
- Lunch $10/ three times week = $1,560 per year
- Dinner $25/ twice per week = $2,600 per year

- Total for full year - $5,070

- Determine what purchases meet your goals.
Signs of Financial Distress

- When Your Credit Card Bill Arrives, You Can't Pay It In Full.

- Your Credit Card Usage Has Become a Necessity Rather Than a Convenience.

- Your Credit Card Debt Is Increasing, but You Only Pay the Minimum Payment Each Month.
Credit Basics

- 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
Types of Credit

- Unsecured Credit
  - Credit Cards, Personal Loans, Checking Overdraft
- Guaranteed Loans
  - Some Home Improvement Loans, pre-2010 student loans
- Secured Loans
  - Backed by pledge of investments or deposits
- Collateral Loans
  - Backed by liens or titles – Homes and Cars

All extensions of credit must be legally disclosed
Credit Cards & Debit Cards

- "Is that debit or credit?"
  - What it says on the card matters
  - Debit cards will always be identified.

- Debit Card
  - Money on deposit

- Credit Card
  - Loan

- Track your spending on-line
  - Every transaction is recorded
  - Categorize all expenses
Managing Money

Most people will spend more with credit than debit and more with debit than cash.
Personal Credit Report

Credit Character
Credit Bureau Companies

- Three Major U.S.
  - Trans Union
  - Experian
  - Equifax

- Company that collects information from various sources
- Data furnishers are typically creditors, lenders, utilities, debt collection agencies and the courts
- Provides consumer credit information on individual consumers for a variety of uses
- Complies reports and scores using proprietary algorithms.
Who Reviews Your Credit?

- Financial lenders
- Employers
- Landlords
- Automotive dealers
- Professional licensing boards
- Insurance companies
What’s on the Credit Report?

- **Personal Information**
  - Names, current & previous addresses, employers, DOB, SSN.

- **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, tax liens, collection accounts, overdue child support

- **Inquiries**
  - List of creditors and agencies who have requested your credit report
How long is information kept on a report?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Open accounts in good standing</td>
<td>Indefinitely</td>
</tr>
<tr>
<td>Closed accounts in good standing</td>
<td>10 years</td>
</tr>
<tr>
<td>Late or missed payments</td>
<td>7 years</td>
</tr>
<tr>
<td>Collection accounts</td>
<td>7 years</td>
</tr>
<tr>
<td>Civil judgments</td>
<td>7 years</td>
</tr>
<tr>
<td>Chapter 7 bankruptcy</td>
<td>10 years</td>
</tr>
<tr>
<td>Chapter 13 bankruptcy</td>
<td>7 years</td>
</tr>
<tr>
<td>Unpaid tax liens</td>
<td>10 years</td>
</tr>
<tr>
<td>Paid tax liens</td>
<td>7 years</td>
</tr>
<tr>
<td>Credit inquiries</td>
<td>2 years</td>
</tr>
</tbody>
</table>
Getting Your Credit Report

- www.Annualcreditreport.com
- Receive a free copy of report from each of 3 bureaus.
- Order report every 4 months to check for inaccuracies.

- Equifax – Atlanta, GA
  - (800)685-1111
- Experian (TRW) – Allen, TX
  - (800)Experian
- Trans Union – Springfield, PA
  - (800)888-4213
www.annualcreditreport.com
What Is Your Credit Score?

- 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
- Only includes factors related to an individual’s credit
- Always changing
Credit Score Ranges

- 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
FICO Credit Score Factors

1. Payment History 35%
2. Outstanding Debt 30%
3. Credit History Length 15%
4. Pursuit of New Credit 10%
5. Credit Mix 10%
1. 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

Months Since Most Recent Major Delinquency

<table>
<thead>
<tr>
<th>Months Since Most Recent Major Delinquency</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–11</td>
<td>High</td>
</tr>
<tr>
<td>12–23</td>
<td>Low</td>
</tr>
<tr>
<td>24–35</td>
<td></td>
</tr>
<tr>
<td>36–47</td>
<td></td>
</tr>
<tr>
<td>48–High</td>
<td></td>
</tr>
<tr>
<td>No Delq</td>
<td></td>
</tr>
</tbody>
</table>
2. 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?

![Outstanding Debt Pie Chart](chart.png)

- **Payment History** 35%
- **Credit Mix** 10%
- **Pursuit of New Credit** 10%
- **Credit History Length** 15%
- **Outstanding Debt** 30%
Outstanding Debt

Example

Ratio of Total Balances to Total Limits on Revolving Accounts

- **0-19%**
- **20-39%**
- **40-59%**
- **60-79%**
- **80-99%**
- **100+%**

High

Low

Risk
3. Credit History Length

- **Key Factors**
  - How long have accounts been established—average number of months accounts have been open
  - New accounts—number of months since most recent account opening

![Credit History Length Pie Chart]
Amount of Credit History

Example

Number of Months Since Oldest Revolving Account Opening

<table>
<thead>
<tr>
<th>Range</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–23</td>
<td>High</td>
</tr>
<tr>
<td>24–47</td>
<td>Medium</td>
</tr>
<tr>
<td>48–71</td>
<td>Low</td>
</tr>
<tr>
<td>72–119</td>
<td></td>
</tr>
<tr>
<td>120+</td>
<td></td>
</tr>
</tbody>
</table>
4. Pursuit of New Credit

- **Key Factors**

- Inquiries: Number of recent inquiries (12 months)

- New accounts—number of trade lines opened in last year

  - Pursuit of New Credit 10%
  - Credit Mix 10%
  - Credit History Length 15%
  - Outstanding Debt 30%
  - Payment History 35%
5. 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

- One 60 day delinquency can decrease a credit score by...
  - 50...
  - 75...
  - even 100 points!
## Credit Impact: Rates and Payments

<table>
<thead>
<tr>
<th>Credit Score</th>
<th>APR</th>
<th>Monthly Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>720-850</td>
<td>4.23%</td>
<td>$741</td>
</tr>
<tr>
<td>690-719</td>
<td>5.68%</td>
<td>$757</td>
</tr>
<tr>
<td>660-689</td>
<td>7.73%</td>
<td>$780</td>
</tr>
<tr>
<td>620-659</td>
<td>11.29%</td>
<td>$822</td>
</tr>
<tr>
<td>590-619</td>
<td>16.28%</td>
<td>$882</td>
</tr>
<tr>
<td>500-589</td>
<td>17.71%</td>
<td>$900</td>
</tr>
<tr>
<td>&lt;500</td>
<td>Not eligible</td>
<td></td>
</tr>
</tbody>
</table>

Source: Myfico.com – 36 month car loan - $25,000
Poor Credit: Costs

- Mortgage costs – extra $200 to $300 per month per $100,000 borrowed
- Insurance costs, credit card costs, other borrowing - $100’s extra per month
- Pay extra for borrowing or pay yourself by planning for purchases and using savings.
Common myths about credit reporting

- When paid, the bad debt will go away on my credit report.
- Not paying off the full balance of my credit card balance (not paying in full) each month helps my credit score.
- Using my debit card but saying “credit” at the store checkout puts the info on my credit report.
- A divorce decree separates joint accounts.
- Requesting your own report harms your credit history.
Statistics – Students & Credit Cards

- Only 26% of college students surveyed nationally understand credit-card fees and interest

- 60% of undergrads surprised at how high their balance had reached

- 98% of student credit cards have an over-limit fee (not HUECU!)
Credit Card Payment Behavior of Students

Payment Behavior

- 38% Make more than the minimum payment but always carry a balance
- 7% Make less than the minimum payment on some or all cards each month
- 22% Make the minimum monthly payment on all cards every month
- 17% Pay off all credit card balances each month
- <1% My parent/spouse/other family member pays my credit card bill
- 14% Pay off some cards in full each month but make only the minimum payment on others

Figure 10: Percentage of students who say their credit card payment behavior most typically resembles that described; source: self-reported survey

Sallie Mae (2009). “How Undergraduate Students Use Credit Cards”
Types of Credit Cards

- **General**: which covers cards with rewards, travel bonuses, cash back, and straight no frills.
- **Limited purpose (store cards)**.
- **Secured**: (Cash in an account determines limit).
- **Others**: Business, premium.
Anatomy of a Credit Card

- Introductory Rate
- Annual Percentage Rate
- Universal Default Rate
- Variable Rate
- Grace Period
- Cash Advance Fee
- Late Fee
- Over-the-Limit Fee
- Expedited Payment Fee
- Foreign Transaction Fee
- Annual Fee
Having a Plan for Your Credit Card

- Determine when and for what you will use the card for each month.
  - Small monthly charges paid in full may help your credit score.
- Avoid “treating yourself” with a credit card.
Making Choices

- Look a card’s Terms & Conditions before applying.
- Weigh the benefit of rewards programs vs a lower interest rate with no rewards program.
- Understand that rewards will only benefit you if you pay off your full balance every month.
## Interest Rates

<table>
<thead>
<tr>
<th><strong>Purchase Annual Percentage Rate (APR)</strong></th>
<th><strong>15.24%</strong>. This APR will vary with the market based on the Prime Rate.(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Transfer APR</strong></td>
<td><strong>15.24%</strong>. This APR will vary with the market based on the Prime Rate.(^a)</td>
</tr>
<tr>
<td><strong>Cash Advance APR</strong></td>
<td><strong>19.24%</strong>. This APR will vary with the market based on the Prime Rate.(^b)</td>
</tr>
<tr>
<td><strong>Overdraft Advance APR</strong></td>
<td><strong>19.24%</strong>. This APR will vary with the market based on the Prime Rate.(^b)</td>
</tr>
<tr>
<td><strong>Penalty APR and When It Applies</strong></td>
<td><strong>29.99%</strong>. This APR will vary with the market based on the Prime Rate.(^c)</td>
</tr>
</tbody>
</table>

The Penalty APR will be applicable to your Account if you:
- fail to make any Minimum Payment by the date and time due (late payment);
- make a payment to us that is returned unpaid; or
- do any of the above or exceed your credit limit on another account or loan you have with us or any of our related banks.

**How Long Will the Penalty APR Apply:** If your APRs are increased for any of these reasons, the Penalty APR will apply indefinitely.

<table>
<thead>
<tr>
<th><strong>How to Avoid Paying Interest on Purchases</strong></th>
<th>Your due date will be a minimum of 21 days after the close of each billing cycle. We will not charge you periodic interest on purchases if you pay your entire balance by the due date each month. We will begin charging interest on balance transfers, cash advances, and overdraft advances on the transaction date.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minimum Interest Charge</strong></td>
<td>If you are charged periodic interest, the charge will be no less than $1.50.</td>
</tr>
<tr>
<td><strong>Credit Card Tips from the Federal Reserve Board</strong></td>
<td>To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at <a href="http://www.federalreserve.gov/creditcard">http://www.federalreserve.gov/creditcard</a>.</td>
</tr>
</tbody>
</table>

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\(^a\) prime rate is subject to change.

\(^b\) fees apply for each advance.

\(^c\) Service charges apply for each advance.
# Fees

<table>
<thead>
<tr>
<th>FEES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Membership Fee</strong></td>
</tr>
<tr>
<td><strong>Transaction fees</strong></td>
</tr>
<tr>
<td>Balance Transfers</td>
</tr>
<tr>
<td>Cash Advances</td>
</tr>
<tr>
<td>Foreign Transactions</td>
</tr>
<tr>
<td><strong>Penalty Fees</strong></td>
</tr>
<tr>
<td>Late Payment</td>
</tr>
<tr>
<td>Return Payment</td>
</tr>
<tr>
<td>Return Check</td>
</tr>
</tbody>
</table>
Cost of Credit Card Minimum Payment

- Making only minimum monthly payment will take you years to payoff a balance.

- $2,000 balance
  - 18% interest rate
  - minimum payment
  - Over 30 years to payoff!
  - $7,000 total paid!
  - This assumes no new spending

- Add $50/month to payment
- $50 more per month
- Reduces payoff time to Less than 3 years with substantial savings.
Managing Your Personal Credit

- Pay your bills on time.
  - Missed or late payments have a high, negative impact.
- Check your credit report for accuracy.
  - Address anything you believe to be in error.
- Payoff debt, rather than transferring it around.
- Don’t get a credit card if you don’t need it or think you need it too much.
- Utilize Balance Counseling
HUECU’s BALANCE Counseling

- BALANCE is a financial education and counseling service available as a benefit of the Harvard University Employees Credit Union
- Money management counseling
  - Personal budget development
  - Debt repayment options
  - Credit report review
- 888-456-2227 - Harvard University CU Referral; Have to be a Member to take advantage.
Contact Information

- HUECU.org
- (617) 495-4460
- HUECU_LOAN_SERVICES@harvard.edu

Thank you for attending!