

Managing Credit and the effective use of Debit/Credit Cards

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Agenda

- An Overview of Credit and Credit Scores
- Building Credit
- Maintaining Good Credit
- Budgeting for your life
- Using debit and credit cards



What is credit?

Credit by definition is the ability of a customer to obtain goods or services before payment, based on the trust that payment will be made in the future.

- There are 4 types of credit:
 - **Revolving Credit:** With revolving credit, you are given a maximum credit limit, and you can make charges up to that limit. Each month, you carry a balance (or revolve the debt) and make a payment. Most credit cards are a form of revolving credit.
 - **Charge Cards:** While they often look like revolving credit cards and are used in the same way, charge accounts differ in that you must pay the total balance every month.
 - **Service Credit:** Your agreements with service providers are all credit arrangements. You receive electricity, cellular phone service, gym membership, etc., with the agreement that you will pay for them each month. Not all service accounts are reported in your credit history.
 - **Installment Credit:** With installment credit, a creditor loans you a specific amount of money, and you agree to repay the money and interest in regular installments of a fixed amount over a set period of time. Car loans and mortgages are two examples of installment credit.

Source: Experian

What is a Credit Score

- Most credit scores operate in a range from 301 to 850
- Based on information in your credit report
 - Details how you have used your credit in your lifetime
 - Whether or not you pay your bills on time
 - The amounts you currently owe
 - How long you have had each account

Put simply, your credit score takes into account all the information reported about you and assigns you a number based on the risk of lending money to you. The higher the score, the less risky you are as a borrower.

FICO Credit Scores



Source: myFico.com

Why is Credit Important?

- Your credit score determines whether you'll get a mortgage, car loan or student loan
- It will impact if you can rent an apartment, how much you pay for insurance and whether or not you get certain types of jobs
- Good credit can signify that your financial situation – and the rest of your life – is on the right track

Source: Bankrate.com

Why is Credit Important?

On a \$200,000 30-year mortgage, if your FICO score is...	...your APR* (interest rate) will be...	...With Interest, you'll pay a total of...
760-850 (best range)	3.816%	\$336,145
700-759	4.038%	\$345,318
680-699	4.215%	\$352,723
660-679	4.429%	\$361,782
640-659	4.859%	\$380,330
620-639 (worst range)	5.405%	\$404,526

Building credit

- Apply for a secured credit card
- Apply for a credit-builder loan
- Get a co-signer
- Become an authorized user on someone else's credit card
- Start small and build up



Maintaining Good Credit



- Pay your bills on time, every time
- Don't get close to your credit limit – do not use more than 30% of your limit
- You don't need to revolve to have a good score
- A long credit history will help your score
- Only apply for credit that you need
- Check your credit report regularly at AnnualCreditReport.com – it is free once a year
- Avoid too many credit inquiries in a short time
- Keep financial records in order and always watch out for fraud and scams

Source: Consumer Financial Protection Bureau

Budgeting for Your Life

Simply put, a budget is an itemized summary of likely income and expenses for a given period.

- A budget will help you identify wasteful spending
- It will help you adapt quickly if your financial situation changes
- Most importantly, a budget will help you achieve your financial goals

How to Create a Budget

Step 1: Set SMART Goals



- Your goals should fall into 3 categories
 - Short Term: Less than one year
 - Mid-Term: 1-3 years
 - Long Term: more than 5 years

Source: Duke University

How to Create a Budget

Example

- Specific: You plan to go to Hawaii when you graduate to celebrate your success
- Measurable: You know that you will need to save \$4,500 to take your trip
- Achievable: You will need to save \$125 a month to meet your goal
- Relevant: Your goal is relevant to you - you plan to take a trip when you graduate as a reward for your hard work
- Time-Framed: You plan to reach your goal in 3 years

Source: Duke University

How to Create a Budget

Step 2: Where is my money coming from?

- List the source of your income and monthly amount from each source

Step 3: Where is my money going?

- Use a spreadsheet to track and categorize your expenses for one month
- Get in the habit of recording your spending at least once a day

Source: Duke University

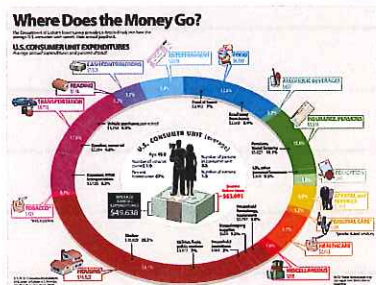
How to Create a Budget

Step 3 Continued: Separate your expenses into 3 categories:

- Fixed Needs: Necessary expenses that stay the same from month to month, e.g. rent, phone bill
- Variable Needs: Necessary expenses that vary from month to month, e.g. gas, electricity, food
- Wants: Nonessential expenses, e.g. lattes, movies, eating out, electronics

Source: Duke University

Budgeting for Your Life



Budgeting for Your Life

Step 4: Add it all up

- When you compare your income and expenses, do you have a monthly surplus or will you be needing another job?



Budgeting for Your Life

Step 5: Make adjustments if needed

- If you are over budget, you need a strategy for controlling costs, balance your budget starting with "wants" from Step 3
 - For each want, decide on a reasonable monthly limit
 - Set a cap on your "want" expenses
 - If you cannot trim enough of your wants in order to balance your budget, first examine your variable and then fixed expenses, you may have to adjust in the short-term

Budgeting for Your Life

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Debit vs. Credit Cards

Debit Card: a form of payment linked to a deposit account, each purchase deducts from your account balance.

- PIN-based transaction: When you enter your Personal Identification Number (PIN) at the Point-of-Sale (POS), the transaction deducts from your checking balance in real-time
- Signature-based transaction: When you sign for a debit card transaction at the POS, you will see a pending item on your account, these items can take 1-2 days to be deducted from your account balance



Debit vs. Credit Cards

Credit Card: a form of payment linked to a line of credit account, each purchase increases the outstanding balance owed.

- All credit cards have different terms and conditions
 - Annual Percentage Rate (APR) that calculates the interest owed
 - Grace periods
 - Annual Fees
 - Cash Back or Points Programs



Debit vs. Credit Cards

When is Credit the best option?

- Large purchases – most credit cards offer additional warranties
- Online purchases, credit cards generally provide more protection against fraud
- Hotels and rental cars
- For cash back or when using a points program

Debit vs. Credit Cards

When using Credit, remember, you have to pay it back.

If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Only the minimum payment	21 years	\$5,935
\$95	3 years	\$3,411 (Savings=\$2,525)

Debit vs. Credit Cards

When is Debit the best option?

- When the other party needs to be paid immediately
- If you are working on better money management habits, credit cards are not for everyone
- Getting cash at an ATM

Wrap-up

Key Takeaways

- Work within your budget, pay yourself first
- Use your credit responsibly and monitor it regularly, know your credit score and what it means
- Know when it is better to use debit or credit and what is right for you might not be right for someone else
