Handling Credit and Debt Wisely

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Apprisen
Challenging Questions

» You need to be able to answer these questions:

• What is debt?
• How do we get into debt?
Credit and Debt

Yesterday

- Generally paid cash
- Didn’t buy until they had the money (people actually saved money)
- Borrowed only in case of extreme emergency or need
- Credit decision took weeks (no credit scoring)
- 8 Billion dollars of revolving debt

Today

- Instant credit is routine
- We spend more than we earn
- Borrow for any and all purposes
  - Credit widely available
  - Credit scoring
- New credit products
- 849 Billion dollars of revolving debt

++ Federal Reserve Bank - December 2012
Total U. S. Credit Card Debt

Shaded areas indicate US recessions.
2010 research.stlouisfed.org
America’s Savings Rate

Personal Saving Rate (PSAVERT)
Source: U.S. Department of Commerce: Bureau of Economic Analysis

Shaded areas indicate US recessions.
2011 research.stlouisfed.org
Challenging Questions

You need to be able to answer these questions:

» Is there “good” debt?
» What is bad debt?
Good Debt Builds Wealth

Debt can build assets

» Home Purchase
» Rental Properties
» Purchase an Appreciating Asset

Debt can lead to opportunities

» School Loans
» Transportation
» Invest in Your Business
Debt to Reconsider

What are “Bad Debts?”

» Debt that doesn’t help to build assets
» Debt with high interest rates
» Debt used for disposable items (food)
» Purchasing more than you need
Debt Can Be an Obstacle to Building Wealth

Truth in Lending Disclosures

» Annual percentage rate
» Fees
» Grace period
» Balance/Interest computation
Types of Credit/Debt

Installment Loans

» Car, Boat, RV loans

» Generally, a fixed payment for a fixed amount (includes principal and interest) for a fixed amount of time

» Example: Car loans can be financed from 36-72 months. Be very cautious about financing for longer terms.
Types of Credit/Debt

Mortgage Loans

» 15-30 years
» Fixed
» Adjustable
» Interest Only
» Equity Loans
Types of Credit/Debt

Revolving Credit

» Credit Cards
» Department store cards
» Home equity lines of credit (HELOC)

» Costs to consider:
  ‣ Interest rate
  ‣ Fees
  ‣ Grace Period
Challenging Questions

You need to be able to answer these questions:

» How do we manage debt wisely?
» What is an acceptable amount of debt?
How Much is Too Much?

General rule of thumb:
Your debt payments, not including your mortgage, should not exceed more than 15-20% of your take home income. Including the following:

» Car Loans
» Personal Loans
» Student Loans
» Minimum Payments on Credit Cards
» Home Equity Loans
Finding Your Debt Ratio

It’s a simple calculation:

» Debt Ratio = Average Monthly Debt Payment / Take Home Pay

» Example for a family bringing home $2200 each month and having debt payments of $400

$400 / $2200 = 18%
Credit Card Payments

On Revolving Credit Cards

» Most minimum payments are generally 3% - 4% of the balance

» Minimum payment covers finance charge and small bit of the principal

» To pay off the credit card more quickly, pay more than the minimum
Cost of Making Minimum Payments

The chart assumes a minimum payment of 3.5%, that you are not making additional purchases and that you are making your monthly payments on time.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>PRICE</th>
<th>APR</th>
<th>INTEREST PAID</th>
<th>THE TRUE COST OF THE ITEM</th>
<th>TOTAL YEARS TO PAY OFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV</td>
<td>$500</td>
<td>18%</td>
<td>$251</td>
<td>$751</td>
<td>5.5</td>
</tr>
<tr>
<td>Computer</td>
<td>$1,000</td>
<td>18%</td>
<td>$626</td>
<td>$1626</td>
<td>8.3</td>
</tr>
<tr>
<td>Furniture</td>
<td>$2,500</td>
<td>18%</td>
<td>$1751</td>
<td>$4271</td>
<td>12</td>
</tr>
</tbody>
</table>
## Paying extra saves $$

<table>
<thead>
<tr>
<th>Balance</th>
<th>Interest Rate</th>
<th>Minimum Payment %</th>
<th>Minimum Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2500</td>
<td>18%</td>
<td>3.5%</td>
<td>$88</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount Paid</th>
<th>Pay Off Time</th>
<th>Total Finance Charges</th>
<th>Total Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Just minimum</td>
<td>12 years</td>
<td>$1751</td>
<td>$4251</td>
</tr>
<tr>
<td>Minimum + $10</td>
<td>7 years</td>
<td>$1201</td>
<td>$3701</td>
</tr>
<tr>
<td>$88 constant payment</td>
<td>3 years</td>
<td>$782</td>
<td>$3282</td>
</tr>
</tbody>
</table>
## Mortgage Loan Repayment

As with credit cards, the more you pay, the more you save.

<table>
<thead>
<tr>
<th></th>
<th>TERM</th>
<th>APR</th>
<th>INTEREST PAID</th>
<th>TRUE COST</th>
<th>TOTAL YEARS TO PAYOFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>30 Yrs</td>
<td>6.9%</td>
<td>$137,096</td>
<td>$237,096</td>
<td>30 Yrs</td>
</tr>
<tr>
<td>$658 per month</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay an extra $50 per month</td>
<td>30 Yrs</td>
<td>6.9%</td>
<td>$106,196</td>
<td>$206,196</td>
<td>24 Yrs</td>
</tr>
<tr>
<td>Pay an extra $100 per month</td>
<td>30 Yrs</td>
<td>6.9%</td>
<td>$87,707</td>
<td>$187,707</td>
<td>20 Yrs</td>
</tr>
</tbody>
</table>
Challenging Questions

You need to be able to answer these questions:

» Where can you find extra money?
» How do we get into debt?
Power Payment Plan

» Create a spending plan
» Prioritize spending
» Increase income

Any additional income or dollars found should be used to pay on debt.

## Creating a Power Payment Plan

**Create a master list of creditors**

<table>
<thead>
<tr>
<th>CREDITOR</th>
<th>BALANCE</th>
<th>PAYMENT</th>
<th>INTEREST RATE</th>
<th>POWER PAYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Card</td>
<td>$500</td>
<td>$10</td>
<td>12%</td>
<td>$50</td>
</tr>
<tr>
<td>Department Store</td>
<td>$950</td>
<td>$19</td>
<td>24%</td>
<td>$19</td>
</tr>
<tr>
<td>Car Loan</td>
<td>$5500</td>
<td>$150</td>
<td>6.99%</td>
<td>$150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$6950</strong></td>
<td><strong>$179</strong></td>
<td></td>
<td><strong>$219</strong></td>
</tr>
</tbody>
</table>
Payday Lending

Be very careful

» High interest rate short term loans
» Typical borrower: white female, age 25-44
» Interest rates can exceed 390% APR
» Average annual income less than $40,000
» Typical use is for ordinary living expenses, not emergencies
» 12 million adults use payday lending annually
» Each loan averages $375 and they pay $520 per year in interest
» If payday lending was not available, most people would cut back on expenses

8 Rules of Smart Credit Management

Follow these steps and handle your money wisely

1. Know what you owe
2. Live within your means
3. Spend less than you earn
4. Borrow only what you can afford
5. Recognize the warning signs of financial difficulty
6. Maintain a good credit rating
7. Check your credit report annually
8. Guard against Identity Theft
Additional Resources

Want more information?

- www.apprisen.com
- www.bankrate.com
- www.quicken.com
- www.money.msn.com
- www.annualcreditreport.com
  877-322-8228
- www.credit.com
- www.scoreinfo.org
  (consumer site re: FICO scores)
- www.creditkarma.com
For more information about managing your personal finances, call Apprisen at:

1-800-355-2227
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» Identity theft prevention and recovery assistance
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