



# Take Control of Your Finances!

## How A Strong Budget Can Help You Be Happier, Healthier, and Better Looking



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# Agenda

1. What is a Budget and Why Do I Need One?
2. Methods of Budgeting
3. Budgeting Resources
4. FICO Scores





# What is a Budget? Why do I Need One?

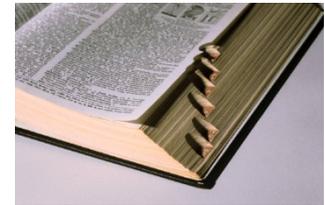


# What is a Budget?

*"Budget: a mathematical confirmation of your suspicions." -A.A. Latimer*

## **Dictionary Definition:**

A budget is an estimate of income and expenditures over a set period of time.



## **Accountant Definition:**

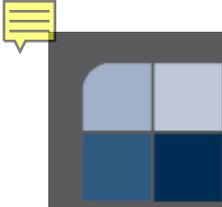
An itemized summary of estimated or intended expenditures for a given period along with proposals for financing them.



## **Romantic Definition:**

A budget is the way that money flows through your life.





# Why Should I Have a Budget?

## Benefits of Budgeting

- **Smart Spending:** Having specific spending targets makes it easier to shop.
- **Stress Relief:** Living within your means makes opening the mail so much more pleasant.
- **Build Wealth:** Create a line item in your spending plan for future savings.
- **Build Credit:** Improve your credit score by living within your income and paying off credit card debt.
- **Save for Future Purchases:** Know that your dreams are becoming reality one month at a time.
- **Mood Booster!** Feel empowered now that you are in charge of your money.

# Where Does My Money Go?

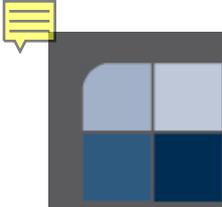
## Average Expenses in 2012\*

Groceries.....	\$3,920
Eating Out.....	\$2,678
Housing.....	\$16,887
Transportation..	\$8,998
Clothing.....	\$1,736
Entertainment	\$2,605
Coffee.....	\$1,200



*"My problem lies in reconciling my gross habits with my net income." - Errol Flynn*

\*Bureau of Labor Statistics



# Rewards of Budgeting

If you would spend less over 20 years, the rewards could be big!

<b>Annual Savings</b>	<b>Source of Savings</b>	<b>\$ Accumulated in 20 Years*</b>
<b>\$600</b>	<b>Spending half of your current amount on gourmet coffee</b>	<b>\$22,100</b>
<b>\$1,500</b>	<b>Above plus reducing your grocery and eating out costs</b>	<b>\$55,200</b>
<b>\$3,000</b>	<b>Above plus spending less on consumer electronics and driving your car longer</b>	<b>\$110,300</b>

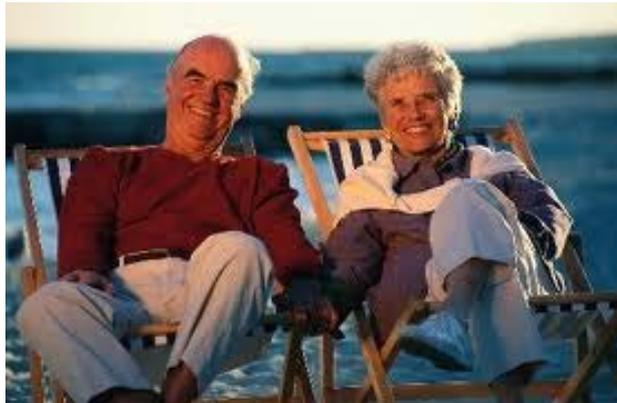
\*Assumes a 6% Average Annual Return

# Rewards of Budgeting

It's the difference between this retirement:



And this one:



Or the difference between this spouse:



or



And this one:



or





# How do I Make a Budget?



# More Than One Way to Make a Budget

## Savings First Method

For you disciplined types

## Envelope Method

For the tactile learner

## Record All Expenses Method

For the spreadsheet lover



*"I don't mind going back to daylight saving time. With inflation, the hour will be the only thing I've saved all year." -Victor Borge*



## Savings First Method

### Pay your savings goals as if they were bills in the mail

**Step 1:** Calculate your monthly savings need for short, intermediate and long term goals

**Step 2:** Set up payroll deduction to those goals where possible.

**Step 3:** If payroll deduction is not available, set up monthly transfers from checking to specified savings on the day after your payroll is deposited.

**Step 4:** Your spending budget is only what you have left

**Pro:** This is the easiest method because it doesn't require you to keep receipts or track expenses to the penny.

**Con:** This is not for you if you spend what you want regardless of what's available to you. Savings First works best for those who work well within clear parameters.



## Envelope Method

### Use physical cash in envelopes to control impulse spending

**Step 1:** Decide how much you should be spending in weekly “fun money.” Include non-essentials like eating out, coffees, clothes, etc.

**Step 2:** Put that amount in an envelope that you carry in your purse or car on Monday.

**Step 3:** As you spend the cash, put the receipts for purchases in the envelope.

**Step 4:** When the cash is spent, you are done for the week. Even if it's only Wednesday.

**Pro:** You really feel it when you are spending cash rather than handing over the debit card. Makes you stop and think before purchasing.

**Con:** Helps with small changes in discretionary spending, but big ticket items (housing, insurance) will need to be addressed separately.



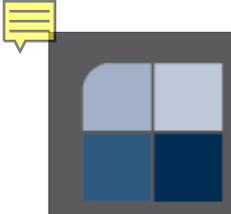
## The Classic: Record and Reconcile

### Record all spending and identify ways to save

- Step 1:** Record in a spreadsheet all expenses for two months.
- Step 2:** Sort by category to see where your money is being spent.
- Step 3:** See areas where you are spending more than you thought.
- Step 4:** Create new targets for each category.
- Step 5:** Continue to record expenses to stay on target.

**Pro:** This is a tried and true method for a reason: When you measure, you can manage. It makes you face the reality of your spending and accountable to change.

**Con:** People dread doing this. It's cumbersome and time consuming. It may be hard to keep up even with the best of intentions.



# You can do it!

## Ideas to Help Along The Way

- 1. Visualize Your Goals:** Vacation, bigger house, financial security in retirement. Whatever it is, picture your goal and remember it when you are doing the hard work to get there
- 2. Reward Yourself:** Plan a monthly treat for staying with your budget. It's hard to stay on track when the payoff is 5 or 20 years away.
- 3. Plan ahead for holidays and vacations:** Add monthly budget all year round to save for these fun times.
- 4. Conquer Impatience:** Don't be tempted to buy the item before you have the money saved to pay for it or you could undo all of your hard work.
- 5. Flow with the Times:** As your financial situation changes, so should your budget. A single 25-year-old's spending needs are not the same as a 40-something parent's.



## Tools to Help

### Resources to help take the drudgery out of budgeting

[www.mint.com](http://www.mint.com): Website to aggregate your spending with very little data entry. Also has articles and tips on saving, investing, mortgages and other personal finance topics.

[www.wesabe.com](http://www.wesabe.com): For the social budgeter! Like Mint, you can compile your expenses here. You can also see how you compare with other Wesabe users in various spending categories.

[www.quicken/intuit.com](http://www.quicken/intuit.com): The classic now offers it's online budgeting without the monthly fee. Sign up for alerts if you are about to overdraw your accounts.

There are many other websites. Look around for the right fit for you!



# FICO Scores – What You Don't Know Could Cost You



# Credit Scores Are Used as a Measure of Risk

## Many entities can request your credit score

- Insurance Companies
  - Home and auto insurance companies use your credit score to determine your rates based on what kind of a risk you are.
- Potential Employers
  - Potential employers want to see if you are fiscally responsible. One way they may do this is by getting your credit score.
- Anyone considering you for a loan
  - This would include auto, mortgage, and credit cards. Your credit history determines if you will qualify for a loan and at what interest rate.
- Landlords
  - A poor credit score can make it hard to rent.



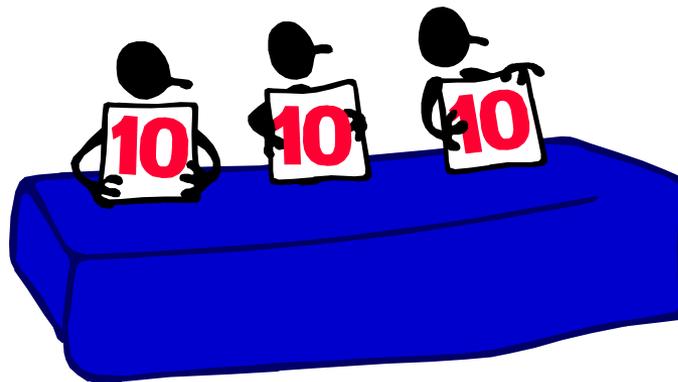


# The Credit Rating Agencies

- FICO<sup>®</sup> Score: Created by the Fair Isaac Corporation
  - The company that creates your credit score
- Credit Bureaus
  - An agency that researches and collects individual credit information and sells it for a fee to creditors so they can make a decision on granting loans
  - A credit bureau doesn't decide whether an individual qualifies for credit or not. It only collects information that it considers relevant to a person's credit history and habits.
  - The three main credit bureaus in the United States are Equifax, Experian and Trans Union

# Credit Scores

- FICO<sup>®</sup> scores range from 300 to 850.
- To get the best deals on loans, you need a score of 750 or above.
- A FICO<sup>®</sup> score of under 600 is considered poor.
- While you are entitled to a free credit report every year, the only way to get your FICO score is to purchase it.



# Payment History 35%

- Amount Past Due
  - How much is late? The more money past due, the worse it is for your score.
  - Credit Cards report past due payments every 30 days. If you are a couple of days late paying your credit card, it won't show up on your credit score.



## Length of Time Past Due

- The more recent the items, the worse it is for your score.
  - Past Due Items over 4 years old don't count in your FICO score, but do show up on your credit report for 10 years.
- Number of Items Past Due

# Capacity 30%

## Available Credit vs. Balance Higher Capacity = Higher FICO® Score

### Joe

8 Credit Cards

\$40,000 in limits

\$10,000 in balances

\$30,000/75% Capacity



### James

2 Credit Cards

\$10,000 in limits

\$10,000 in balances

\$0 / 0% Capacity



## Notes on Capacity

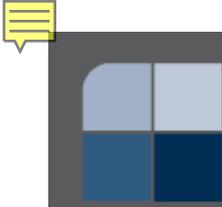
- Don't close out old credit cards – they help your Capacity score
- Even if you pay off your credit cards every month, if your Capacity is maxed out, it hurts your score.
- Keep as much space between your limits and your balances as possible. This shows restraint and self control to lenders.



## Length of History 15%



- Time since accounts opened
- Time since account activity
  - Use all accounts regularly to keep accounts open.
- Lenders like borrows with a long history
  - Keep those old accounts open and active by using them every once in a while. Even if it's not your favorite card, it helps with your Length of History score.
- Consider helping kids establish credit history.
  - At age 18, people can start their own credit history.



## New Credit 10%

- **Number of new accounts**
  - How often are you applying for new credit? If you open lots of accounts in a short amount of time, this can look bad to creditors.
- **Number of recent credit inquiries**
  - **Hard inquiries** – Used any time you apply for a loan, credit card, etc. Full credit history is pulled.
    - Auto loans – 14 days to shop rates – multiple hard inquiries only count once in 14 days
    - Mortgages – 30 days to shop rates – multiple hard inquiries only count once in 30 days
  - **Soft inquiries** – Only looking at your credit score. Does not hurt your score
    - Examples: Employers, Landlords, Insurance Agencies, Wireless Companies, Credit Card Pre-approvals
- Length of time accounts have been open

# Types of Credit 10%

## Lenders like a good mix of different kinds of credit

### Installment Loans

Usually raise your score

Examples: Auto loans,  
Mortgages, Home Equity  
Loans, Student Loans

These loans have a set  
payment and end date.



### Revolving Credit

Usually lowers your score

Examples: Credit Cards,  
open ended lines of credit

These loans are  
unpredictable in amount  
or payoff date.





## Clean up errors on your credit reports

Go to [www.annualcreditreport.com](http://www.annualcreditreport.com) or call 1-877-322-8228 for a free annual credit report from all three credit bureaus. If you find errors:

1. Contact the credit reporting company in writing to tell them about the error. Include copies (not originals) of supporting documentation.
2. The credit bureau must investigate your claim within 30 days and report back to you with the findings.
3. If the investigation results in a change, you must be given the results in writing along with a free copy of your updated report.
4. Tell the creditor in question that you are disputing the item with the credit reporting agency. If the dispute is resolved in your favor, they cannot continue to report the claim to the credit agencies.

## Clean up errors on your credit reports

**The Federal Trade Commission can help if you are not being treated fairly by the credit bureaus.**



- The FTC works to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them.
- To file a complaint or get free information on consumer issues, visit [ftc.gov](http://ftc.gov) or call toll-free, 1-877-FTC-HELP (877-382-4357).



## Keep Up On Your Credit Score

- [www.annualcreditreport.com](http://www.annualcreditreport.com) – for a free credit report
  - This is the ONLY place that will give you your credit reports from all three credit bureaus for free.
  - Check once/year for accuracy and potential identity theft
  - Can get FICO score for an extra fee
- [www.optoutprescreen.com](http://www.optoutprescreen.com) – to opt out of unsolicited credit card offers
- [www.myfico.com](http://www.myfico.com) – Website with tips on improving your credit score from the people who calculate it
- [www.ftc.gov](http://www.ftc.gov) – For detailed information on fixing errors on your credit report



# Questions and Conclusion

