Budget Cents

By SAFE Credit Union

WORKBOOK

A Financial Starter Guide

Table of Contents

Introduction

Let's get you started

Welcome to SAFE Credit Union's "Budget Cents Workbook: A Financial Starter Guide!" In this eBook, we're laying the foundation of finance fundamentals. Whether you're just starting out on your financial journey or are looking to discuss financial literacy with your teens, this guide will equip you with the knowledge and tools necessary to navigate the basics.

In today's fast-paced world, understanding how to effectively manage money, navigate the credit landscape, and make informed financial decisions is more important than ever. That's why we've tailored this eBook to cover some essential topics. Here's a glimpse of what you'll learn:

- **Decoding Financial Terms & Definitions:** We'll start by explaining some of the terms encountered in the world of finance, empowering you to speak the language of money confidently.
- **De-mystifying Credit and Credit Scores:** We'll delve into the intricacies of credit, including what it is, how it works, and how your credit score is calculated.
- **Defining the Difference Between Banks and Credit Unions:** We'll explore the differences between banks and credit unions, helping you make an informed choice that aligns with your needs and values.
- **Demonstrating How to Track and Manage Your Budget:** Whether you're saving for a specific goal or simply aiming to live within your means, mastering budgeting skills is essential for financial success. We've provided a Budget Worksheet so you can track your expenses and start managing your money effectively.

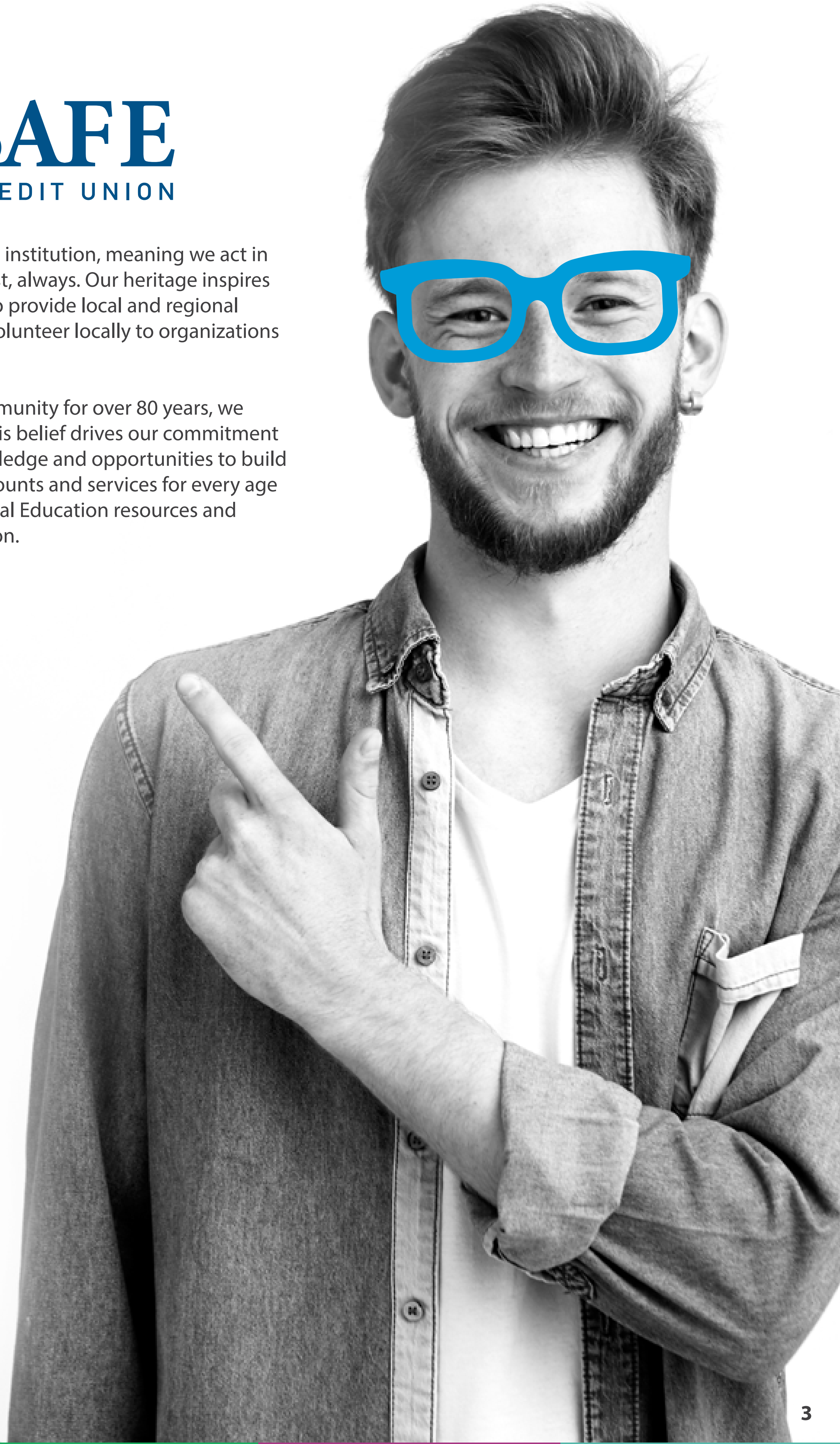
By the time you reach the end of this eBook, we hope you'll feel empowered and confident as you set out on your journey towards financial freedom.

Thank you for starting your journey with us!

- *The SAFE Financial Education Team*

SAFE is a not-for-profit financial institution, meaning we act in the interest of our members first, always. Our heritage inspires our sense of service and duty to provide local and regional philanthropy; we donate and volunteer locally to organizations in our backyard.

Serving members and the community for over 80 years, we believe in financial freedom. This belief drives our commitment to serving members with knowledge and opportunities to build financial freedom. We offer accounts and services for every age and life stage, as well as Financial Education resources and events both online and in person.



Financial Terms & Definitions

Asset — An item with economic value that an individual or business owns. Examples: checking or savings account balances, real estate and short-term investments.

Annual Percentage Rate — (APR) The total cost of credit, including interest, fees, and other charges, expressed as an annual rate.

Annual Percentage Yield — (APY) is the rate of return earned on an investment or savings type account, taking into account the effect of compounding interest.

Bank — A for-profit financial institution that is licensed to accept checking and savings deposits and make loans. Governed by the FDIC.

Budget — A budget is a financial plan that helps determine how much money a person plans to spend over a period of time. This includes income, expenses, savings, and debt payments.

Checking Account — A type of financial account that allows withdrawals and deposits and is typically used for daily transactions.

Compound Interest — This is the amount of interest accrued on a loan or earned on a deposit based on the initial amount plus the interest accumulated over time.

Creditor — A person or company to whom money is owed.

Credit Bureau — An agency that collects information relating to the credit ratings of individuals and makes it available for financial institutions, lenders such as credit card companies, employers, and utility companies. The three credit bureaus are Experian, TransUnion, and Equifax. Each lender may use a different bureau so your score might vary slightly with each.

Credit Card — A card used to access to a revolving line of credit (open-ended) loan that allows you to borrow money up to a certain limit and carry over an unpaid balance from month to month.

Credit Score — A three-digit number representing the perceived ability of a person or organization to fulfill their financial commitments. This score is determined by several factors including credit card utilization, on time payments and collection items, variety of credit lines, length of credit history, and new credit. Most credit scores are created either by FICO or VantageScore Solutions.

Credit Report — A summary of your credit activity and current credit situation such as loan paying history and the status of your credit accounts. Lenders use these reports to help them decide if they will loan you money and what interest rates they will offer you. Other businesses might use your credit reports to determine whether to offer you insurance; rent a house or apartment to you; or provide you with cable TV, Internet, utility, or cell phone service. If you agree to let an employer look at your credit report, it may also be used to make employment decisions about you.

Credit Union .... A not-for-profit financial institution that accepts deposits and makes loans similar to banks. Because they are not-for-profit and owned by its members, they often offer competitive returns on savings accounts and lower interest rates on loans. Governed by the NCUA.

Debit Card .... A card used to buy things (like groceries or gas) without carrying cash with money from your checking account.

Debt .... Something that is owed or due, typically money. For example, money you borrowed on a credit card is considered debt.

Debt-to-Income Ratio (DTI) .... Your DTI compares how much you owe in debt each month and how much you earn in income. Important for overall financial health and for applying for loans.

FICO Score .... A FICO score is a three-digit number that measures an individual's trustworthiness to pay back loans or debts. FICO is a calculated scoring model. Some creditors use different scoring models to help determine your ability to make payments on a loan. Another scoring model is the VantageScore.

Financial Institution .... A company that focuses on dealing with financial transactions, such as investments, loans, and deposits.

Grace Period .... A set length of time after the due date during which the payment may be made without a penalty.

Gross Income .... An individual's total earnings before taxes and other deductions are taken out.

Hard Inquiry .... A record of the fact that someone reviewed your credit to make a lending decision.

Inflation .... A decrease in the purchasing power of money, when money cannot buy as much as it used to because prices for things you need or want go up.

Interest .... A fee charged by a lender, and paid by a borrower, for the use of money. A bank or credit union may also pay you interest if you deposit money in certain types of accounts.

Loan .... Money that needs to be repaid by the borrower, generally with interest.

Mortgage .... A type of loan used to purchase or maintain a home, land, or other types of real estate.

Net Income .... An individual's total earnings after taxes and deductions are taken out.

Net Worth .... This is the total value of what an individual or business owns minus the amount owed in debts.

Principal Amount .... The amount of money that you originally received from the lender and agreed to pay back on the loan with interest.

Savings Account .... A type of financial account intended for saving. Earns interest and there are different types that you can open.

Credit Basics

Now that you have a basic understanding of terms as they relate to credit, let's take it a step further to grasp why these concepts are important for your financial success.

What is a credit score?

- **A credit score is a three-digit number that lenders use to determine your creditworthiness.**
- **Creditworthiness is your ability to pay on a borrowed amount and how you manage your income versus debt.**
- **Poor creditworthiness and low credit scores may look like: high credit card utilization, high debt and low income, and late payments or collections.**
  - » **High Credit Card/ Debt Utilization:** Just because you have it, does not mean you should use it. Lenders provide limits on borrowed amounts for a reason. They take into consideration how risky this loan may be and provide you funds based on creditworthiness. For a credit card, you may be approved for a limit of $3,500. It is advised that to maintain healthy debt and to not put yourself in a financial bind, that you do not exceed 30% of the credit limit you have available. To calculate this, you can use this equation: Limit x .30 = Amount to not exceed. For this example, $3,500 x .30 = $1,050. To maintain healthy utilization, you would not want to spend more than $1,050 on this card. Higher than 30% utilization may lead to paying higher rates, taking longer to pay back amounts, a lowered credit score, and lack of availability for emergencies.

» **Debt-to-Income (DTI):** Your DTI is an important part of your overall financial health. Calculating your DTI can help you decide how comfortable you are with your current debt situation and aid in the decision making of taking on more debt. To calculate, you can start by adding up your monthly bills then dividing this amount by your gross monthly income. Use the chart in the next section to see how this percentage is broken down. Formula: Debts/ Gross Income = DTI. Example: $300/ $1,500 = .20 or 20%

» **Late Payments:** It is crucial to pay your debts on time and within their grace period. Failure to do this can negatively impact your overall financial health. More specifically, late payments may cause you to incur fees, bring down your credit score, and damage a relationship you have with the company or lender. Payment history makes up 35% of your credit score, that is quite a big chunk! Late payments may also have a snowball effect and increasingly become worse the longer they go unpaid. Companies may send your past due debt to a debt collector to manage. When this happens, this means you are now in "collections" with that company. Collection items include any debts that you promised to pay and did not deliver on. These can linger and keep your credit score down the longer you have them. Always contact the company prior to allowing a payment to go unpaid. They may have programs to assist you.

- **Good creditworthiness and good credit scores may look like: responsible credit spending habits, length of credit history, managing a variety of credit types, and on-time payments.**

» **Responsible Spending Habits:** Use only what you can afford! Credit card use is one of the best ways to build credit, if done correctly. As advised previously, do not exceed 30% of the credit limit. Other good credit habits may include using the credit card for purchases you can afford to pay back, setting up an autopay to a bill and paying off your bill each month. If you do not pay the entire amount that you spent, then you may end up paying additional interest on this amount. This can lead to paying more than necessary for a purchase and delaying the amount being paid off.

» **Length of History:** Length of credit history makes up about 15% of your credit score. The longer the history, the better! More specifically, your length of credit history includes how long specific accounts have been open, how long credit accounts have been open, and how long it has been since you've used your credit accounts. To calculate your overall credit history, you can take the sum of years for each account and divide by the number of cards you have.

Example: (15 years + 5 years + 4 years) = 24 years/ 3 cards = 8 years average credit history.

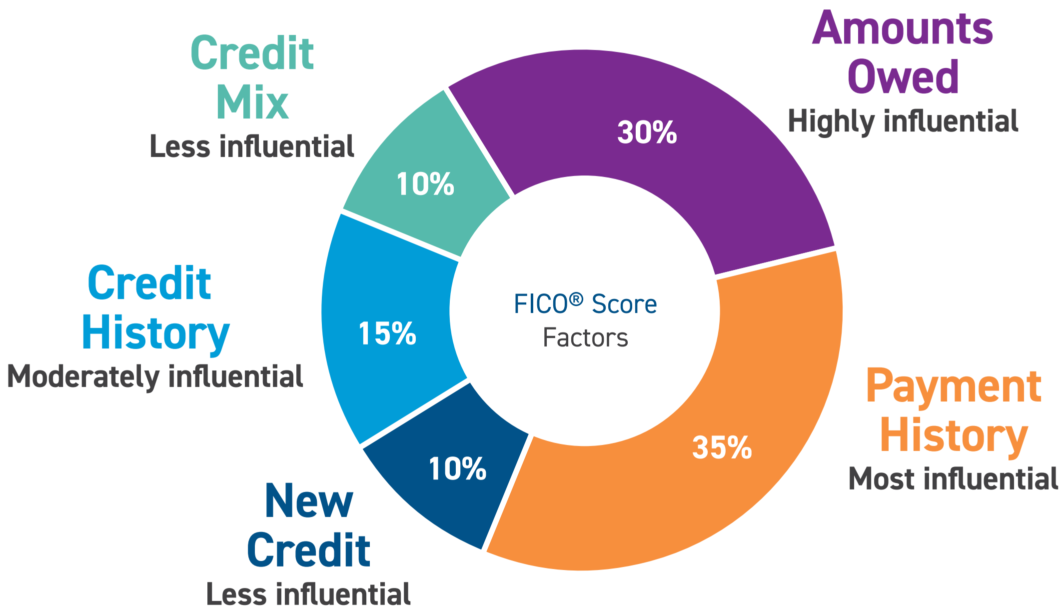
» **Variety of Credit:** Credit account types include more than just credit cards! Having a good variety of debt looks good on your credit report, if you are managing them well. A variety may include a credit card, auto loan, and a student loan. This shows creditors that you not only can manage multiple payments, but you also have an understanding for different types of debt. This accounts for about 10% of your credit score.

» **On-Time Payments:** Making on-time payments is a great habit to have. You can set up automatic payments, receive alerts when they are due, and track them all at your fingertips. When setting up a loan or credit card, make sure you are aware of when your monthly payment is due and if there is a payment grace period.

Model 1: The FICO Scoring Models

The FICO Scoring model is one of the most used models by lenders. There are multiple models that use slightly different algorithms. The FICO score is determined by the information that is gathered by each of the credit bureaus: Experian, TransUnion, and Equifax.

FICO Factors:



- **Payment History 35%:** on-time payments, late payments, and collection items highly influence your score. Bankruptcy can also greatly affect your score. Your payment history is one of the fastest ways to increase or decrease your score.

- **Amounts Owed 30%:** This is your credit utilization and DTI (debt-to-income). Remaining below 30% of your credit utilization will help maintain a healthy score. Maxing out cards can negatively affect you here.

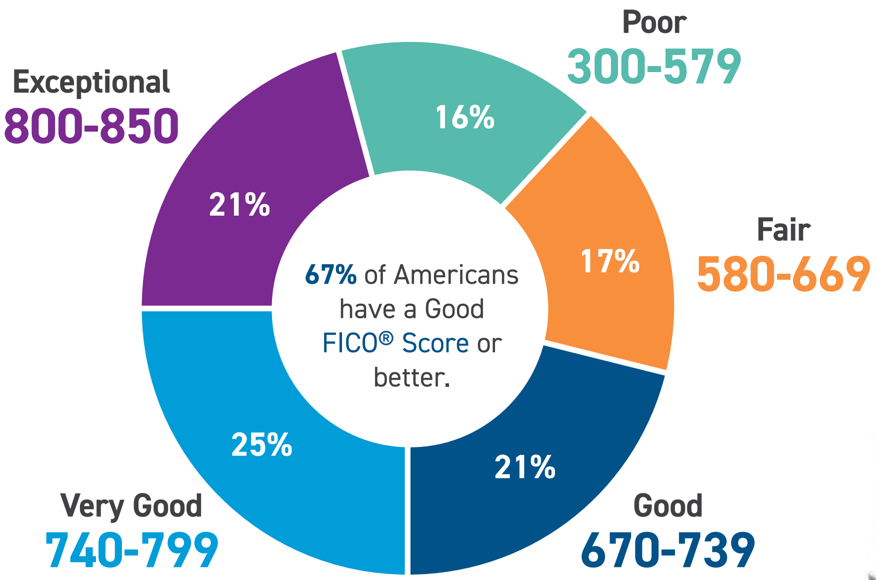
- **Credit History 15%:** This can take time to obtain. Another way to increase your credit history is to be added to a credit card as an authorized user. You will benefit from the primary credit card owners good standing with this account. Be wary of closing cards with good standings or long history, as this may affect your score.

- **New Credit 10%:** Submitting credit applications can lead to “hard inquiries”. These can potentially lower your score if you are applying for multiple things. The reasoning is to mitigate risk. It can be seen as risky if you are applying for several credit cards within a certain period. On the other hand, scoring models are designed to recognize when you are shopping around. This is beneficial when it comes to applying for auto loans.

- **Credit Mix 10%:** Having a variety of secured and unsecured debt can help to improve your score. Secured debt includes loans that are secured by collateral like a car or home. Credit cards or personal loans are considered unsecured because there is nothing securing the borrowed amounts besides good faith in consumers and their credit.

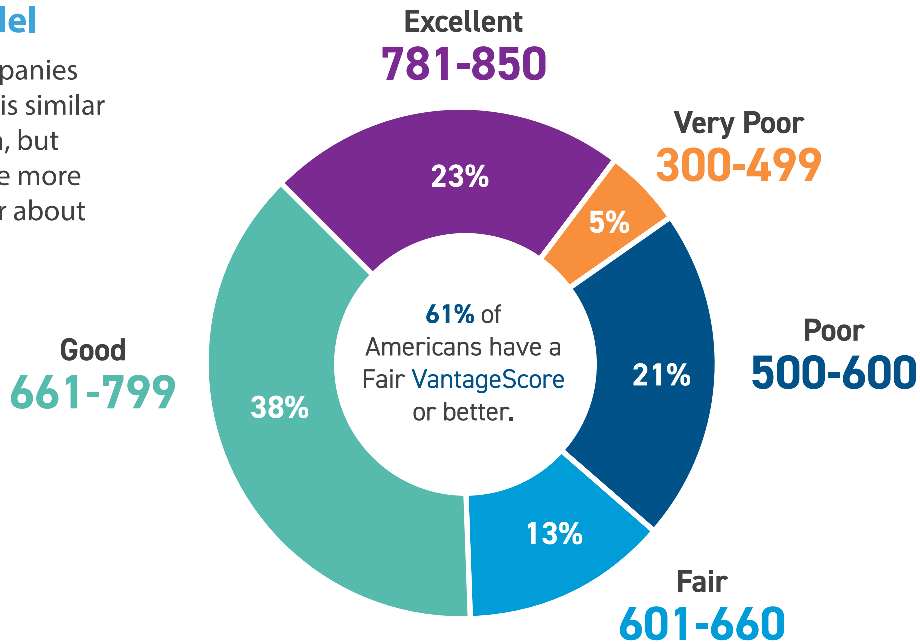
Understanding the different credit score models and how they apply to your goals will help you prepare better for credit choices.

FICO Score Breakdown:



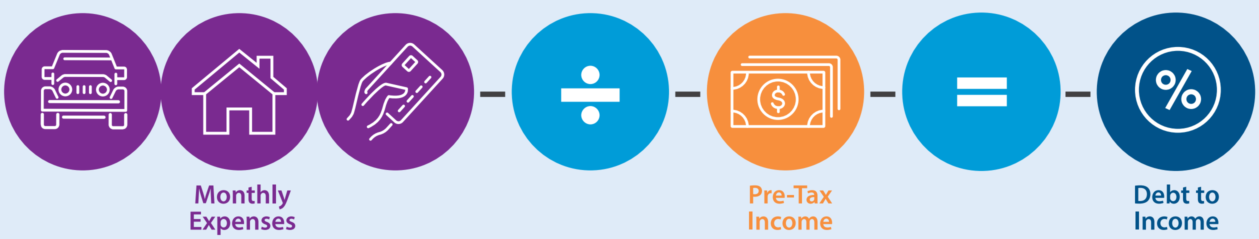
Model 2: The VantageScore Model

Another credit score model that some companies use is the VantageScore model. This model is similar to the FICO model in how it is broken down, but the ranges slightly differ. This model may be more forgiving than FICO. Check with your lender about which model they use.



Debt-to-Income Ratios

DTI Calculation



Debt-to-Income:

10% or lower

You likely have little problems paying bills and managing other expenses

15%

You are probably in pretty good shape managing your expenses.

20%

You are close to or are in the danger zone for debt. A fifth of your take-home pay is going toward paying for things you bought in the past.

30% or more

Anywhere above 20% is considered too much debt. If you are in the 30% range, then 1/3 of your pay is already spoken for before you start paying your current monthly obligations.

Choosing a Financial Institution

Choosing where to store and save your money doesn't have to be complicated. When you first decide to choose a financial institution, there can be so many options that it becomes overwhelming. Most importantly, you want a financial institution that is going to help protect your money, grow your money, and provide you tools to reach your goals along this journey of life.

Protect Your Money:

You may have heard that "cash is king." Cash is a great way to have easy access to your funds, but did you know that cash is not as safe as using a debit card? Housing your funds in a checking account and using a debit card are great ways to avoid losing your money. Consider the following common scenario: You lose your wallet. With cash, whatever is lost is gone forever. With a debit card, whatever was not authorized by you, the account holder, is protected. In addition, debit cards are set up with a Personal Identification Number or PIN. This PIN is typically 4-8 numbers and is only known by YOU! This added layer of protection helps to limit thieves from withdrawing your money at an ATM.

Your accounts are also protected against failure of the financial institution. In the 1930's, America was facing The Great Depression. This historical period led to many Americans losing their money when financial institutions closed due to lack of funds, this led to them losing their faith in the banking systems. In 1933, Franklin D. Roosevelt announced how the government would resolve this. Thus, the Federal Deposit Insurance Company (FDIC) was born. The FDIC was created to maintain stability by insuring deposits and supervise financial institutions. Fast forward forty years and the National Credit Union Administration (NCUA) was created as an independent agency to also maintain stability, protect deposits, and supervise credit union activities.

The most important thing to remember about the FDIC and NCUA is that wherever you place your funds, your money is insured to at least $250,000 in the unlikely case of financial institution failure.

Grow Your Money:

When you place money in a piggy bank, that cash stays the same amount no matter how long you save it. A dollar will still be a dollar, but that dollar's value may be different years down the road. Because of inflation and constantly changing economies, it is best to store cash into a savings account so that you may grow your money.

Both banks and credit unions offer savings type accounts to help protect and grow your money. We covered how these are protected, but how do they grow money?

Savings accounts at financial institutions may earn interest whereas savings accounts at credit unions earn dividends.

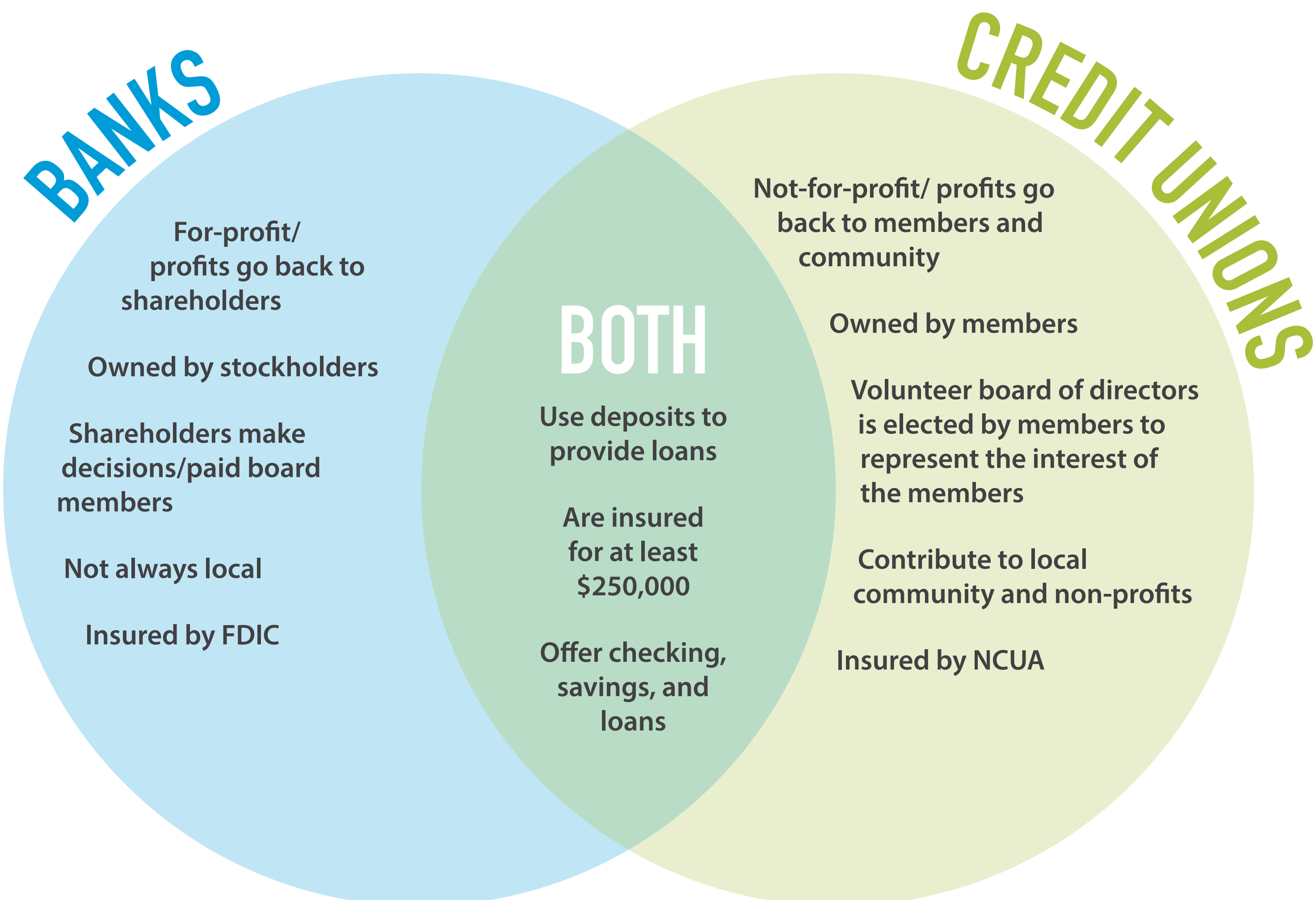
Interest and dividends is money that a bank, credit union, or other financial institution pays you for depositing your cash in an account.

Banks vs. Credit Unions: The Credit Union Difference

You're probably wondering why there are different types of financial institutions that do just about the same things. It is true that both banks and credit unions offer similar products and protections but the history and philosophy of each will set them apart!

Banks are for profit. These started as institutions where big businesses and the wealthy could store their money and pay for foreign goods and services. Banks are now owned by shareholders that decide how to spend profits, often in their own interest. Because of this, you typically see lower rates of returns on savings, if you have lower amounts of money.

Credit Unions are not-for-profit. These started as institutions where members of the community could lend and borrow money with each other. This means that the credit union is owned by its members. Volunteer board members help make decisions based on the interest of the credit union members and bettering their respective communities. These volunteer board members are from the communities they serve. This means you may see higher rates of return on savings accounts, lower rates on some loans, and more investment into the community.



Budget Worksheet

Use this budget worksheet to help you track your finances and savings goals.

Instructions:

1. List your income $ ____________________
2. List your expenses $ ____________________
3. List your savings goals total $ ____________________
4. Subtract your total spending from total income $ ____________________

Month: $ ____________________

Income:

Job $ ____________________

Other Income $ ____________________

Total Income This Month: $ ____________________

Spending:

Housing (rent) $ ____________________

Utilities (gas, water, electricity, sewage) $ ____________________

Food $ ____________________

Transportation (car payment, insurance, gas) $ ____________________

Cell Phone $ ____________________

Internet/ Gaming $ ____________________

Entertainment $ ____________________

Other Spending $ ____________________

Total Spending: $ ____________________

Savings Goals:

	Total of Goals	Total Deposited This Month	Total Left to Save
Goal #1			
Goal #2			
Goal #3			
Totals			

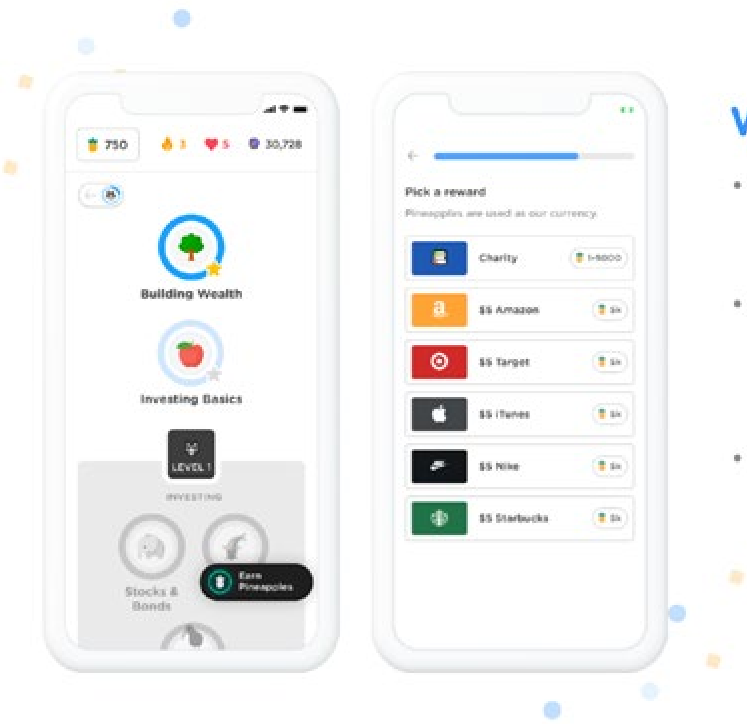
Calculate Your Expenses:

Total Income	Total Spending	Total Saved	Discretionary Funds (Left over)

If expenses are more than your income, look at your budget and find expenses to cut.

Zogo: A fun financial literacy app that pays you to learn!

We have partnered with Zogo to help you learn financial literacy and earn rewards in the process!



With the app, you can:

- Learn personal finance with over 500 bite-sized lessons.
- Earn pineapples for each lesson learned, which you can redeemed for rewards from popular retailers.
- Compete with friends and family, to earn more rewards.

The Partnership

With the partnership between us and Zogo, your financial future has never looked brighter! Zogo takes the guesswork out of personal finance with clear, easy-to-understand lessons in the palm of your hand. While you learn, you'll earn rewards from some of the nation's most popular retailers.

Confused about taxes? Not sure what a 401(k) actually is? Want to build a better budget? Don't worry — Zogo's got you covered!

Download the Zogo app now, and take control of your financial future.

Get Started:

- scan the code to download the app:
- enter the access code:

SAFE

Congratulations!

You've made it through "Budget Cents Workbook: A Financial Starter Guide." As you reflect on and implement the topics covered in this eBook, remember that financial literacy is an ongoing journey, and that SAFE Credit Union is here to help you every step of the way.

For more information on SAFE accounts and resources for young adults, visit our Teen Accounts page. You can also check out these additional Financial Education resources for more budgeting and financial health tips:

- FinLit Toolkit**.** This collection of printable resources helps you budget, manage debt, and more as you take control of your finances.
- Events and Webinars. Our Financial education team hosts weekly webinars on a broad range of financial topics for every stage of life.
- Perfect Cents Podcast. This podcast covers everything from scholarships to building good credit habits and more!
- Beyond Everyday Banking. Our blogs cover a wide range of timely finance topics to keep you in the know.

As you move forward, we encourage you to continue seeking knowledge, asking questions, and making informed financial decisions. You have the power to shape your own financial future, and SAFE has your back.

If you're not a member yet, give us a try to discover all that truly makes SAFE one of the best credit unions in California. Check out our website and become a SAFE member today!

Join Now!

Warm regards,

- *The SAFE Financial Education Team*

Sources:

- CFPB for additional definitions: https://www.consumerfinance.gov/consumer-tools/educator-tools/youth-financial-education/glossary
- Credit: https://www.investopedia.com/fico-credit-scores-explained-5072985 , https://www.myfico.com/credit-education/whats-in-your-credit-score , https://www.experian.com/blogs/ask-experian/how-is-your-credit-score-determined/ , https://www.experian.com/blogs/ask-experian/the-difference-between-vantage-scores-and-fico-scores/