HOW TO MANAGE DEBT SO IT DOESN'T MANAGE YOU

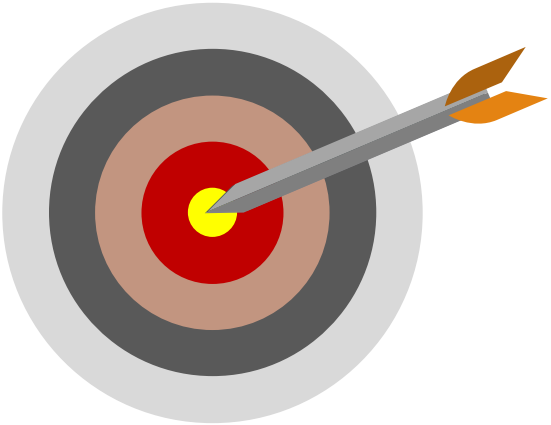
Keeping Finances Under Control



Presented by:
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Director of Training

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Seminar Objectives



What is DEBT?

- What are the types of debt?
- What is good debt? What is bad debt?
- What are the benefits and costs?

The WARNING SIGNS

- What are the warning signs of too much debt?
- What does your credit report and score say about your debt?

How can you MANAGE YOUR DEBT?

- How can you tackle the debt you have?
- How can you avoid the pitfalls?
- How can you stay out of debt and improve your credit?

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What is debt?

Debt is an amount of money borrowed by one party from another. Debt is used by individuals as a method of making large purchases that they could not afford under normal circumstances. A **debt arrangement** gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest.



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Types of Debt



Secured debt vs.
Unsecured debt

Fixed interest rates vs.
Variable interest rates



Installment credit vs.
Revolving credit

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Types of Debt - Explained



Secured debt	Unsecured debt
Car loan	Credit cards
Mortgage	Personal loans



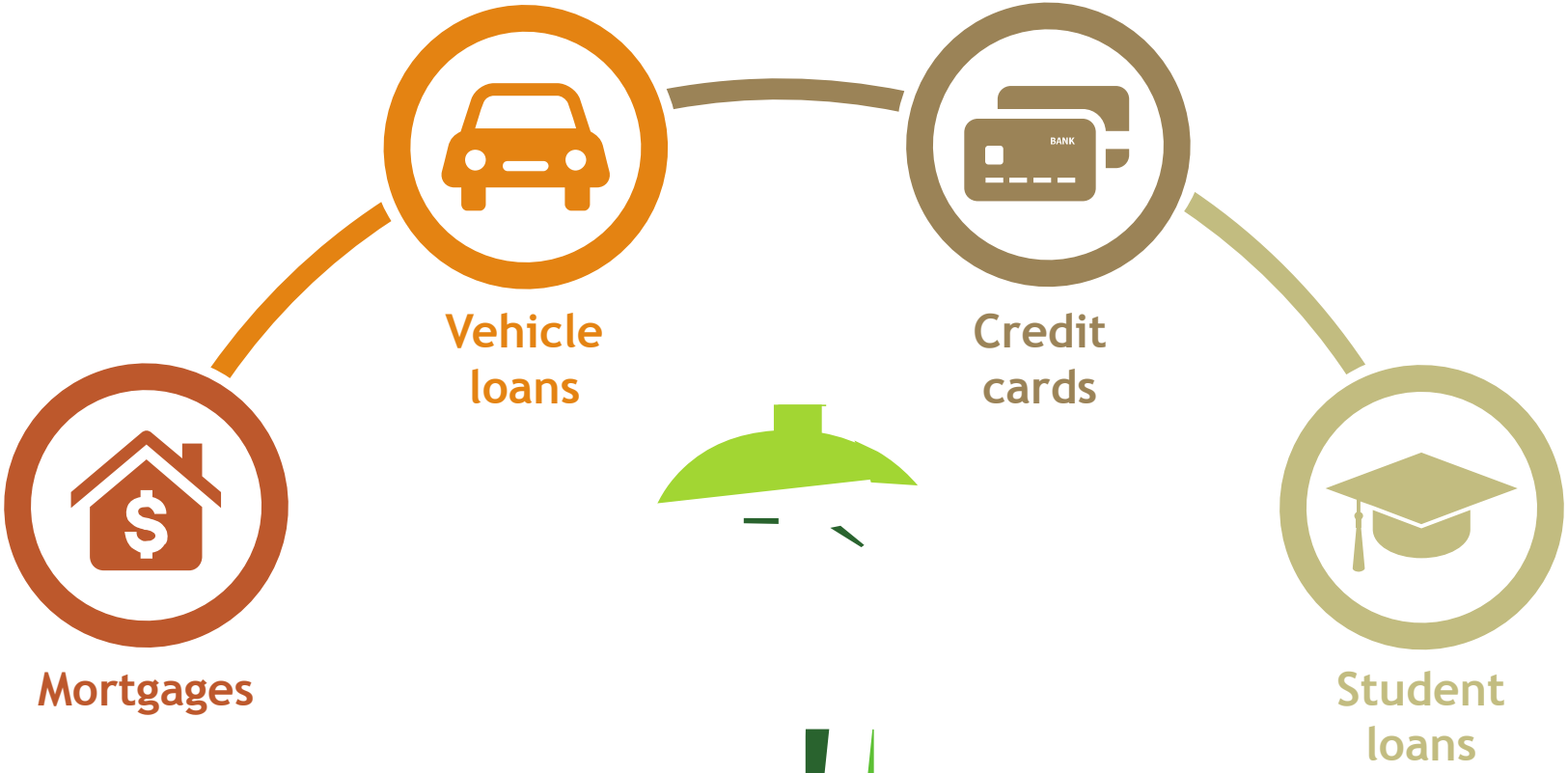
Installment credit	Revolving credit
Mortgage	Credit cards
Student loans	Cash advances

Fixed interest rates	Variable interest rates
Car loan	Credit cards
Mortgage	Payday loans

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Breaking down debt

What are the most common forms used?



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Handout 2:
The Pros and Cons of Credit



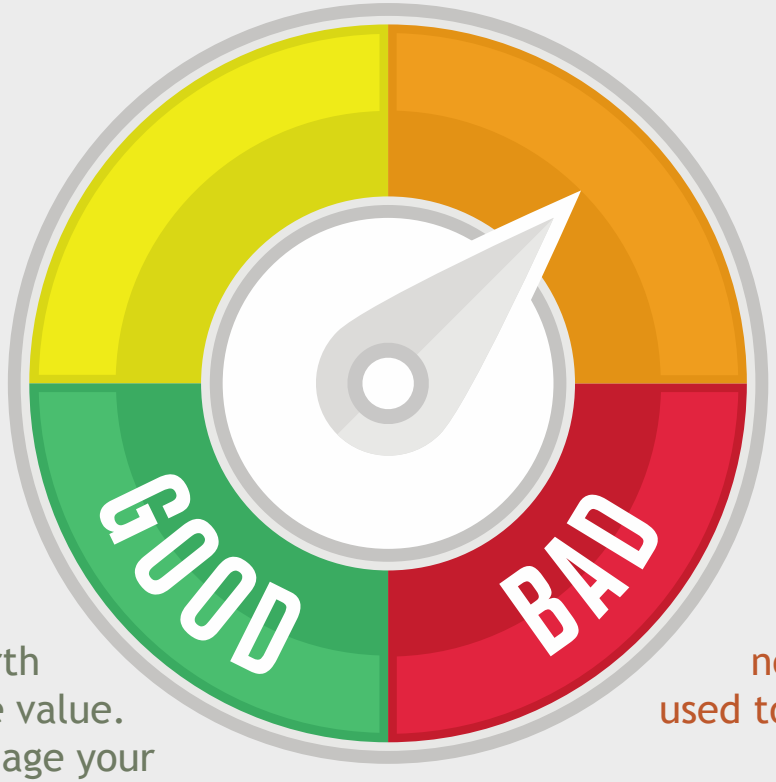
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Handout 3:
Is Using Credit an Advantage or a Disadvantage?



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The Debt Difference



What is good debt?

In general, good debt is that which increases your net worth and/or helps you to generate value. Good debt allows you to manage your finances more effectively, to leverage your wealth, to buy things you need and to handle unforeseen emergencies.

What is bad debt?

Bad debt is that which does not increase wealth and/or is used to purchase goods or services that have no lasting value.

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Good Debt vs. Bad Debt



- Taking out a mortgage
- Borrowing to save time and money
- Investing to increase future earnings



- Buying luxuries you can't afford
- Carrying debt with high interest rates



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Handout 4:
Good Debt vs. Bad Debt





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Costs of Debt: What should you consider?

Can I afford the purchase?

What is the opportunity cost of taking on the debt?



Will this diminish my ability to reach other financial goals?

Is it something I really need or is it just a want?

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Costs of Debt: Credit Card Debt

$20,000 Credit card Balance at 18% interest

Make the minimum payment of 2% of the balance each month

It will take you 30 years to pay off and cost you $50,225 in interest

$20,000 in purchases will really cost you $70,225







$20,000

$70,225

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Costs of Credit:
The Effects of Interest Rates

Total Purchase Amount	$1,000	$1,000	$1,000
Credit Card APR (Annual Interest Rate)	10%	15%	25%
Monthly Payment	$40	$40	$40
Number of Months to Pay Off Purchase	29	31	36
Total Finance Charge	$126	$207	$427
Total Cost	$1,126	$1,207	$1,427

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General warning signs about having too much debt

Spending more than you earn

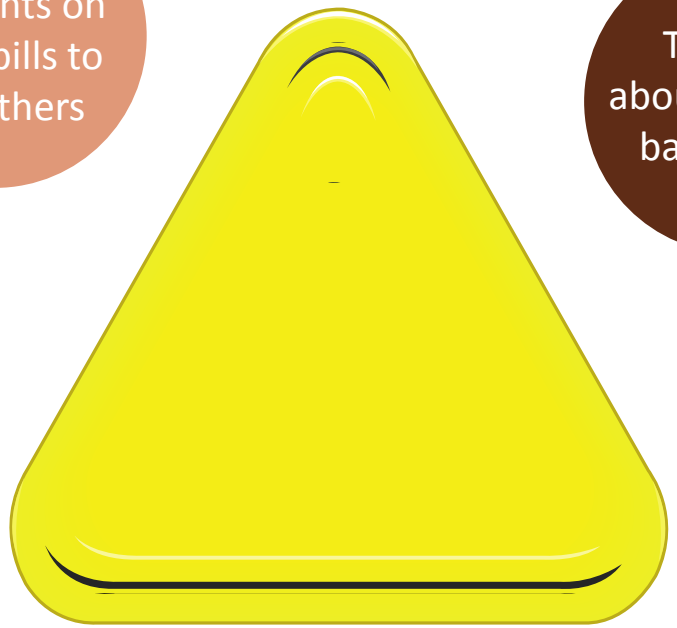
Paying day-to-day bills with credit cards

Unsure about what you owe

Skipping payments on some bills to pay others

Arguing with your spouse about money

Making the minimum payments on credit cards



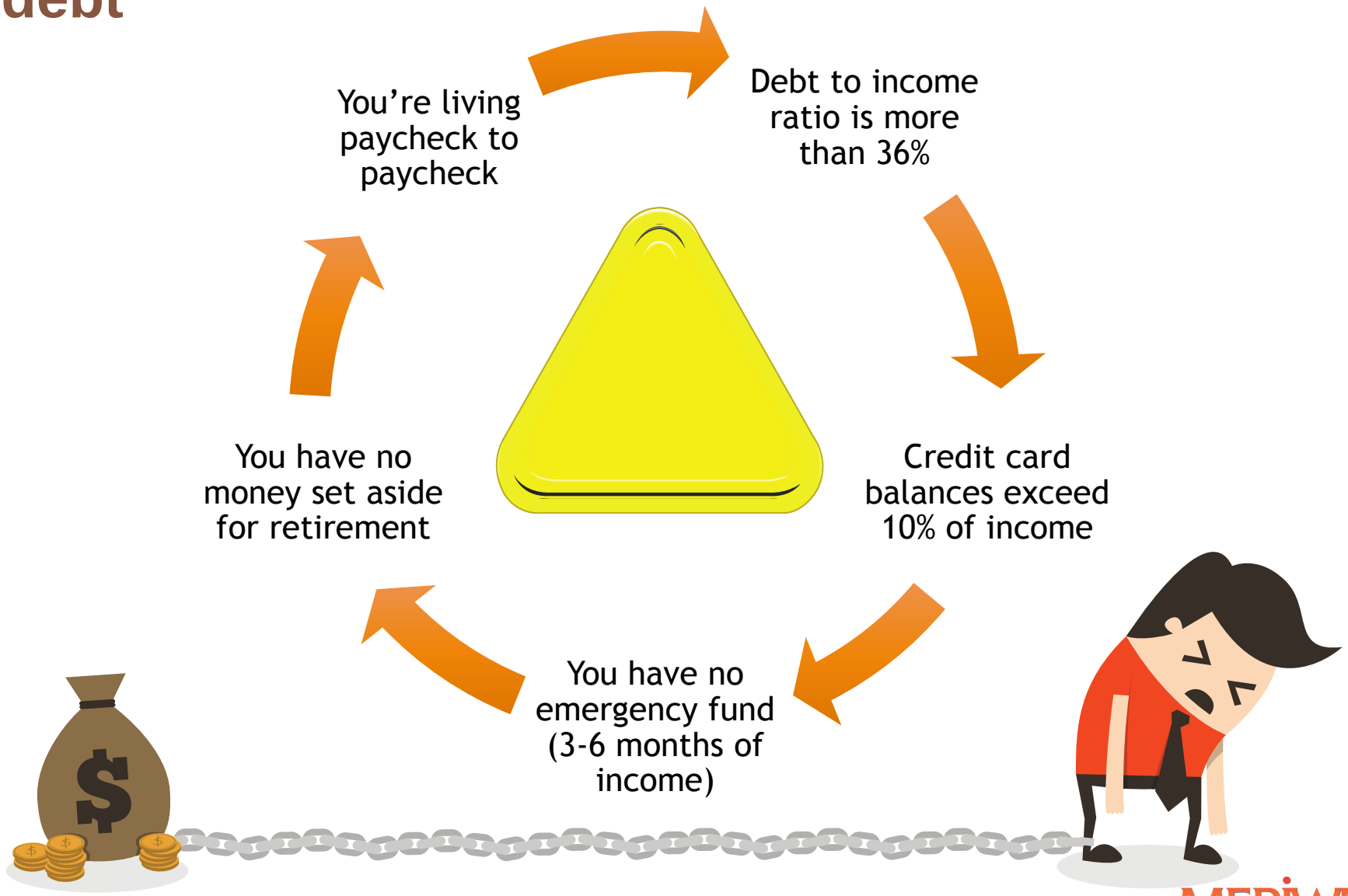
Thinking about filing for bankruptcy

Maxed out credit cards

Creditors are calling you about late bills

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More specific signs you may have too much debt



Your credit report- what is it?

A credit report is a record of your credit activities from the three major credit bureaus. It lists any credit-card accounts or loans you may have, the balances, and how regularly you make your payments. It also shows if any action has been taken against you because of unpaid bills.



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Your credit score- FICO® score

0-579

- Extreme mishandling of credit, or
- There is no established credit score and therefore, no credit history



720-850

- Consistently responsible when it comes to managing their borrowing
- Have a long history of no late payments

580-619

- Have a significantly damaged credit history
- May be the result of multiple defaults on different credit products from several different lenders

680-720

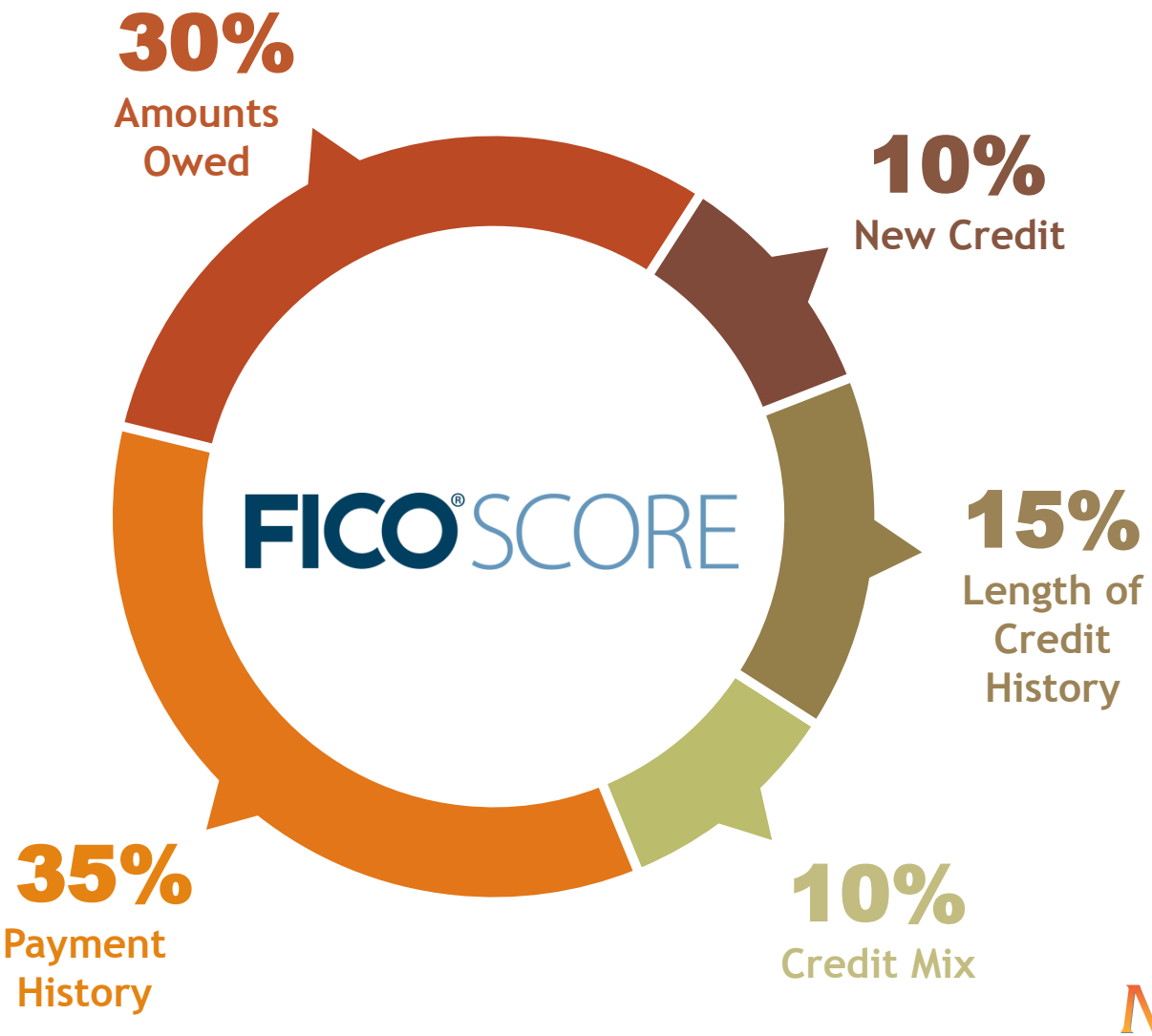
- Generally financially responsible when it comes to credit management
- Most of their payments are made on time

620-679

- Damaged credit history
- Commonly have a credit record showing multiple late payments
- May even show a loan default

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How is your FICO Score determined?



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How can you tackle the debt you have?

- Make a game plan
- Understand what you owe
- Get organized
- Eliminate what you can
- Seek help and assistance
- Lower your interest rates
- Cut spending
- Increase your income
- Sell what you don't need
- Make a free, fun "to do" list
- Don't give up



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Tackling your debt

Make a Plan and Understand What you Owe



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Tackling your debt

Get Organized and Eliminate What You Can



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Tackling your debt

Seek Help and Assistance



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Tackling your debt

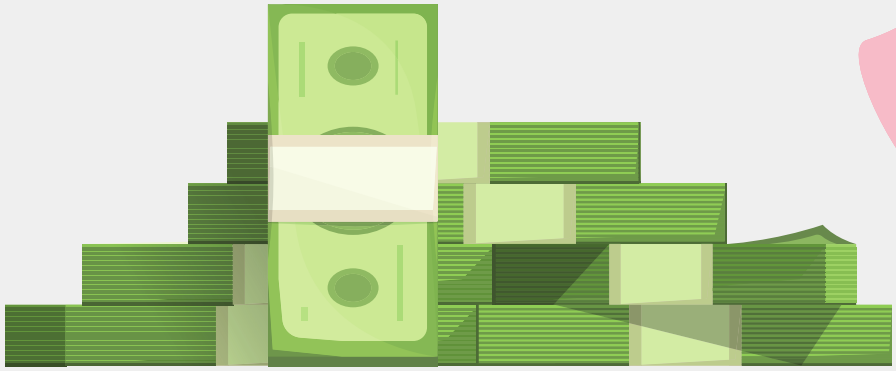
Lower Your Interest Rates and Cut Spending



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Tackling your debt

Increase Your Income





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Tackling your debt

Sell What You Don't Need and Make a Free, Fun "To Do" List

ebay™

craigslist



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Tackling your debt

Don’t give up!



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How to Avoid the Pitfalls



- Create a spending plan
- Set up an emergency fund
- Plan ahead for periodic expenses
- Don't use credit as an extension of your income
- Save rather than spend
- Make more money

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Video

Reducing Money Worries

Click Here to Play



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It starts with a budget!



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How can you stay out of debt?

Set
SMART
financial
goals



Specific

Measurable

Adjustable

Realistic

Time-Oriented

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What else will help you stay out of debt?

- Remember the agony
- Don’t spend more than you earn
- Track your spending
- Wait for sales
- Take care of your health



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How can you improve your credit?



- Arrange to catch up on your payments.
- Pay your bills on time, all the time.
- Check your credit report.
- Pay down your debt.
- Look into a secured credit card.
- Avoid closing certain credit accounts.

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What will you do with all the money You are no longer spending on your debt?



Invest



Find a hobby



Save





Give and serve

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Remember...



Your
Credit Union
can help you
with all of your
financial challenges.

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