HOW TO MANAGE DEBT SO IT DOESN'T MANAGE YOU
How to Manage Debt so it Doesn’t Manage You

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?
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.
Types of Debt

- Secured debt vs. Unsecured debt
- Fixed interest rates vs. Variable interest rates
- Installment credit vs. Revolving credit
Types of Debt - Explained

**Secured debt**
- Car loan
- Mortgage

**Unsecured debt**
- Credit cards
- Personal loans

**Installment credit**
- Mortgage
- Student loans

**Rumbling credit**
- Credit cards
- Cash advances

**Fixed interest rates**
- Car loan
- Mortgage

**Variable interest rates**
- Credit cards
- Payday loans
Breaking down debt
What are the most common forms used?

Mortgages
Vehicle loans
Credit cards
Student loans
Handout 2:
The Pros and Cons of Credit
Handout 3:
Is Using Credit an Advantage or a Disadvantage?
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.
Good Debt vs. Bad Debt

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

Bad Debt:
- Buying luxuries you can’t afford
- Carrying debt with high interest rates
Handout 4: Good Debt vs. Bad Debt
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?
$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

Costs of Debt: Credit Card Debt
## Costs of Credit: The Effects of Interest Rates

<table>
<thead>
<tr>
<th>Total Purchase Amount</th>
<th>$1,000</th>
<th>$1,000</th>
<th>$1,000</th>
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<tbody>
<tr>
<td>Credit Card APR (Annual Interest Rate)</td>
<td>10%</td>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>Monthly Payment</td>
<td>$40</td>
<td>$40</td>
<td>$40</td>
</tr>
<tr>
<td>Number of Months to Pay Off Purchase</td>
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<td>31</td>
<td>36</td>
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<tr>
<td>Total Finance Charge</td>
<td>$126</td>
<td>$207</td>
<td>$427</td>
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<tr>
<td>Total Cost</td>
<td>$1,126</td>
<td>$1,207</td>
<td>$1,427</td>
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General warning signs about having too much debt

- Spending more than you earn
- Making the minimum payments on credit cards
- Maxed out credit cards
- Skipping payments on some bills to pay others
- Paying day-to-day bills with credit cards
- Unsure about what you owe
- Arguing with your spouse about money
- Thinking about filing for bankruptcy
- Creditors are calling you about late bills
More specific signs you may have too much debt

- You’re living paycheck to paycheck
- Debt to income ratio is more than 36%
- Credit card balances exceed 10% of income
- You have no money set aside for retirement
- You have no emergency fund (3-6 months of income)
- You have no money set aside for retirement
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.
Your credit score - FICO® score

0-579
- Extreme mishandling of credit, or
- There is no established credit score and therefore, no credit history

580-619
- Have a significantly damaged credit history
- May be the result of multiple defaults on different credit products from several different lenders

620-679
- Damaged credit history
- Commonly have a credit record showing multiple late payments
- May even show a loan default

680-720
- Generally financially responsible when it comes to credit management
- Most of their payments are made on time

720-850
- Consistently responsible when it comes to managing their borrowing
- Have a long history of no late payments
How is your FICO Score determined?

- 30% Amounts Owed
- 35% Payment History
- 15% Credit Mix
- 10% Length of Credit History
- 10% New Credit
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
Tackling your debt
Make a Plan and Understand What you Owe
Tackling your debt
Get Organized and Eliminate What You Can
Tackling your debt

Seek Help and Assistance
Tackling your debt

Lower Your Interest Rates and Cut Spending
Tackling your debt

Increase Your Income
Tackling your debt

Sell What You Don’t Need and Make a Free, Fun “To Do” List
Tackling your debt

Don’t give up!
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
Reducing Money Worries

Click Here to Play
It starts with a budget!
Set SMART financial goals

S - Specific
M - Measurable
A - Adjustable
R - Realistic
T - Time-Oriented

How can you stay out of debt?
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
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.
What will you do with all the money you are no longer spending on your debt?

- Invest
- Find a hobby
- Save
- Give and serve
Remember...

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