

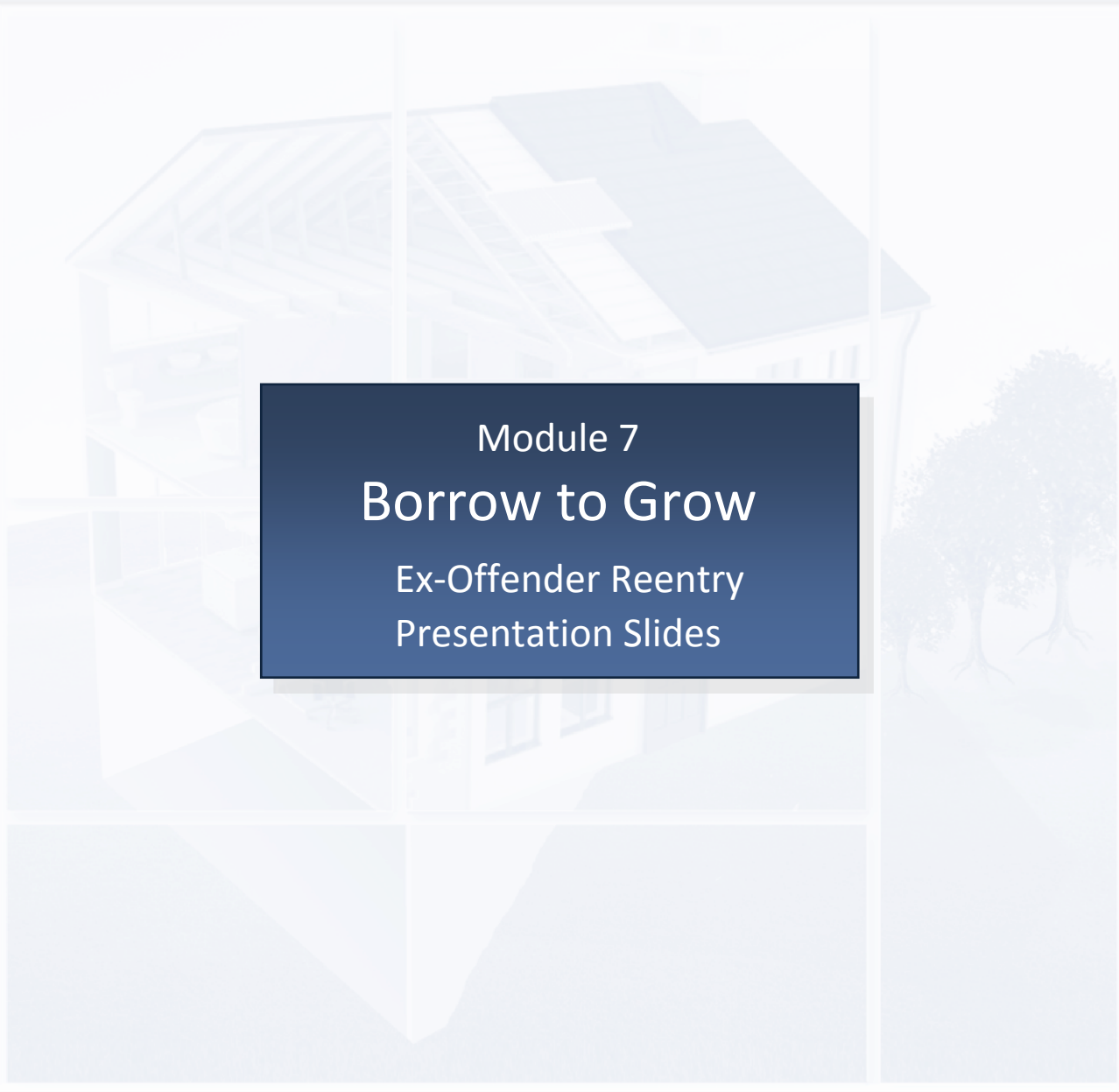
Building Your Financial House

Set the Foundation of Your Future



Module 7 Borrow to Grow

Ex-Offender Reentry
Presentation Slides





Building Your Financial House WELCOME

Prior to Today's Session

Today's Topics

- Types of Credit
- Getting and Using Credit
- Credit Reports and Scores
- Dissecting Your Debt
- Avoiding Predatory Lending

5 Make Money Work

6 Protect Your Potential

4 Check Taxes

3 Spend Sensibly

7 Borrow to Grow

1 Invest in Yourself

2 Maximize Earnings

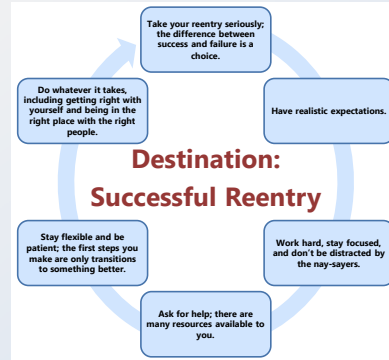
Finally, only borrow to buy things (assets) that will grow and feed your financial future, like seeds of a fruit tree.

Borrowing in excess, similar to overwatering a seedling, can slow your financial growth, weigh it down, and drown it out.

7 Borrow to Grow

- Identify the types and appropriate uses of "other people's money" (OPM)
- Identify the four main factors that affect the total cost of credit
- Be familiar with credit reports and scores, how to get them, and how lenders use them
- Recognize the credit risk to cost relationship and way to improve credit worthiness
- Be familiar with information lenders must provide to you when borrowing money

KNOWLEDGE



Path to Successful Reentry



This is NOT YOUR MONEY.

It is OTHER PEOPLE'S MONEY!

Credit vs. Debt

	Permission to use OPM
	OPM used and must be repaid OTHER PEOPLE'S MONEY!


Types of Credit

Revolving	Installment	Service
<ul style="list-style-type: none"> • Reusable • Example: credit cards • Payments: flexible, based on balance • Default: purchases denied, fees, penalty interest rate 	<ul style="list-style-type: none"> • Once and done • Example: auto loan • Payments: fixed, based on amount, time, and rate • Default: repossession, wage garnishment 	<ul style="list-style-type: none"> • Month-to-month • Example: cell phone • Payments: based on usage • Default: service shut-off

Types of Debt

Secured	Unsecured	Garnishments
		

Credit: How to Get It – The 5 C's



Capital (cash)

Capacity (income)

Character (history)

Collateral (guarantee)

Condition

Did you know you shouldn't shop for a monthly payment? How? It must fit in my money map!




\$ 239/mo



Don't Shop for a Monthly Payment

	Loan Amount	Interest Rate	Term (months)	Monthly Payment	Total Payments	Cost of Credit
Sticker	\$10,000	7%	48	\$239	\$11,472	\$1,472
Factor Change:						
Down Payment \$2,000	\$8,000	7%	48	\$192	\$9,216	\$1,216
Term 60 months	\$10,000	7%	60	\$198	\$11,880	\$1,880
Interest Rate 8.5%	\$10,000	8.5%	48	\$246	\$11,808	\$1,808
Fees \$340	\$10,000	7%	48	\$239	\$11,812	\$1,812

Four Factors of Finance

Factor	Direction	Monthly Payment	Cost of Credit
Down Payment	↑	↓	↓
Term	↑	↓	↑
Interest Rate	↑	↑	↑
Fees	Paid Up Front	No effect	↑
	Rolled into loan	↑	↑

Disclosures for Good Decisions

Interest Rate and Charges

- Annual Percentage Rate (APR)
- Purchases
- Balance Transfers
- Penalty and length:
 1. Late payment
 2. Over credit limit
 3. Returned payment
 4. Related accounts
- Due date to avoid interest
- Minimum interest charges

Fees

- Set-up and maintenance
- Transaction
- Penalty
- Balance calculation method
- Conditions of introductory rate

Required Disclosures	Example
Annual Percentage Rate (APR)	6.99%, 16.99% or 22.99% introductory APR for one year, based on creditworthiness. After that, your APR will be 16.99%. This APR will vary with the market based on the Prime Rate.
APR for Balance Transfers	16.99% This APR will vary with the market based on the Prime Rate.
APR for Cash Advances	16.99% This APR will vary with the market based on the Prime Rate.
Penalty APR (paid when it applies)	16.99% This APR may be applied to your account if you: <ol style="list-style-type: none"> 1. Make a late payment. 2. Exceed your credit limit. 3. Make a payment that is returned. 4. Do any of the above on another account that you have with us. If your APR is increased for any of these reasons, the Penalty APR will apply until you make an on-time payment on your account. After that, your APR will be at least 25 days after the date of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date each month. If you are over your interest, the charge will be no less than \$1.00.
How long will the penalty APR apply?	As long as you are in arrears on your account.
How to avoid paying interest on purchases.	Pay your balance in full by the due date each month.
Minimum Interest Charge	1% of your outstanding balance, the charge will be no less than \$1.00.
Fee	None.
Set-up and Maintenance Fees	None.
Annual Fee	None.
Account Set-up Fee	None.
Transaction Fee	None.
Balance Transfer	None.
Cash Advance	None.
Foreign Transaction	None.
Penalty Fee	None.
Late Payment	None.
Over-the-Credit Limit	None.
Returned Payment	None.
How we calculate your balance	None.
How we calculate your interest	None.
For more credit card tips	None.

Disclosures for Good Decisions

Yes, the Buyer and Car Loan. If you pay for the vehicle before cash or on credit. By signing this contract, you choose to buy the vehicle on credit according to the terms in the agreement. You agree to pay the Dealer. See the Amount Financed and Finance Charge according to the payment schedule below. Your finance charge will be based on a daily rate of 7.00% per year. The Truth in Lending Disclosure is part of this contract.

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	Amount Financed	Total of Payments	Total Sales Price
8.50%	\$ 1,812.00	\$ 10,000.00	\$ 11,472.00	\$ 9,000.00

\$340

Number of Payments	Amount of each Payment	Payments are Due	Late Charge
48	\$ 239.00	Monthly	You must pay a late charge if a payment is more than 10 days late. The charge is 5% of the outstanding balance, whichever is greater.
	\$	Beginning Date of Payment	Prepayment. If you pay off early, you will not have to pay a penalty.
	\$	1/1/2020	Security Interest. You are giving us a security interest in the vehicle being purchased.

Mortgage Loan Disclosures

FCIS BANK

1000 Main Street, Suite 1000, St. Louis, MO 63102

1-800-555-1234

Loan Estimate

Loan Amount: \$100,000

Interest Rate: 4.50%

Monthly Payment: \$500.00

Term: 30 years

Estimated Closing Costs: \$3,000

Estimated Cash to Close: \$10,000

Checking Cost Details

Category	Amount
Origination Fee	\$1,000
Underwriting Fee	\$500
Processing Fee	\$500
Application Fee	\$500
Survey Fee	\$500
Recording Fee	\$500
Notary Fee	\$500
Prepaid Interest	\$1,000
Escrow Fees	\$1,000
Other Fees	\$500
Total	\$6,000

Mortgage Loan Disclosures

Additional Information About This Loan

Annual Percentage Rate (APR): 5.547% (This APR includes the interest rate and all other charges that are part of the loan, such as fees, except for the cost of the loan itself.)

Finance Charge: \$10,000 (This is the total amount of interest you will pay over the life of the loan.)

Total of Payments: \$11,472 (This is the total amount you will pay for the loan, including principal and interest.)


Amount Financed: \$10,000 (This is the amount of money you are borrowing.)

Total Sales Price: \$9,000 (This is the price of the property being purchased.)

Prepayment: If you pay off early, you will not have to pay a penalty.


Security Interest: You are giving us a security interest in the vehicle being purchased.

Chat Box




Credit Myth #1
True or False?
I must keep a balance on my credit card to build a credit history.

Chat Box




Credit Myth #2
True or False?
Credit reports are all the same.

Chat Box




Credit Myth #3
True or False?
My employer must have my permission to see my credit report.

Chat Box



Credit Myth #4
True or False?
My credit score will be lower if I view my credit reports.

Credit History – Credit Reports



- Overall snapshot of using OPM
 - Who-lender, a.k.a creditor
 - What-revolving, installment, service
 - Date opened
 - Paid as agreed (or late)
 - Balance
- Compiled information from creditors
- Individual (not joint)
- Changes based on activity-payments (made, late or missed) applications, legal action, etc., typically on a monthly cycle

Free Credit Reports – Get Them and Check Them



Online :
www.annualcreditreport.com (the one and only free site!!!)*
Telephone:
877-322-8228
Mail:
Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

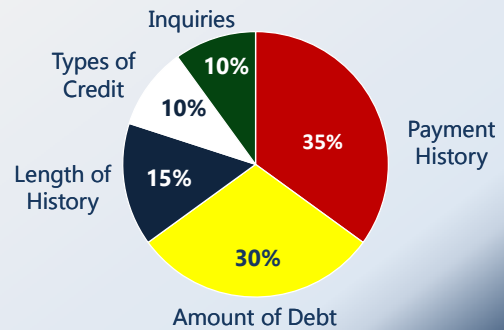
Note: Free credit reports do **not contain your credit score.*

Credit Scores – What's Your Number?



- A number which represents how likely a person is to repay a loan
- It is calculated by a complicated statistical program using the information contained in your credit report
- There are a variety of scoring models used for different lending purposes (auto loans, mortgages, credit cards, etc.)

Credit Scores – FICO Scoring Model

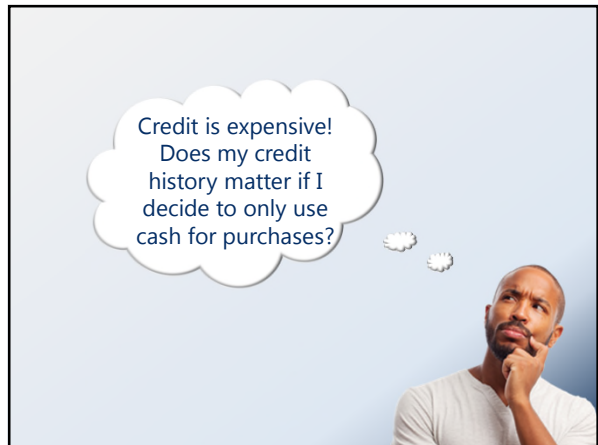


The Cost of Poor Credit!

Credit cost for Pennsylvania consumers borrowing \$10,000 for a 48-month used auto loan*

FICO Score	APR	Monthly Payment	Total Interest Paid
720-850	4.428%	\$228	\$ 944
690-719	6.598%	\$233	\$ 1,184
660-689	7.300%	\$241	\$1,568
620-659	11.425%	\$261	\$2,528
590-619	19.260%	\$300	\$4,400

*Source: myfico.com for rates quoted 4/21/22



Why Does Credit History Matter?



Credit – How to Use It



Know When to Say "When"



Debt-to-Income Ratio

- How much of your income goes towards debt?
- Guidelines –
 - less than 10% for consumer debt (auto/student/ personal loans, credit cards, etc.)
 - less than 28% for housing debt (with taxes and insurance)

$$\text{(Monthly debt payments} \div \text{Gross monthly income)} \times 100$$

Know When to Say "When"



Utilization Ratio

- How much of your available credit are you using?
- Guidelines-
 - Less than 30% for each revolving account
 - 100% is not a good score!

$$\text{(Debt balance} \div \text{Credit limit)} \times 100$$

Warning Signs



- Ratios too high
- Can't make minimum payments
- Using one credit account to pay on other credit account
- Calls from creditors
- Collection agencies

Credit: How to Fix It



1. On Your Own
2. Credit Counseling
3. Debt Management Program
4. Debt Settlement
5. Bankruptcy

Credit: How to Fix It

On Your Own

- Establish manageable money map
- Dissect your debt for payment strategies
- Contact creditors and ask for reduced interest rates, payments, or refinance options
- Make good on your promises and make payments ON TIME!

Pros

- You take control
- Saves money in additional late fees and/or penalties
- Re-establishes good payment history

Cons

- Takes time to pay off debts
- May still have to manage multiple accounts and payments

Credit Counseling

- Evaluate credit report and debt
- Establish a manageable money map
- Suggest repayment strategies
- Helps contact creditors and ask for reduced interest rate, payments or refinance options

Pros

- Professional analysis of your situation
- Saves money in additional late fees and/or penalties
- Re-establishes good payment history

Cons

- Takes time to pay off debts
- May still have to manage multiple accounts and payments

Rebuilding Credit with Help

Debt Management Program (DMP)

- Credit counseling
- Contact creditors and negotiates a lower interest and manageable repayment plan
- One monthly payment to provider
- Monthly disbursements to creditors

Pros

- Professional analysis of your situation
- Saves money in additional late fees and/or penalties
- Re-establishes good payment history
- Write one check per month

Cons

- Will take time to pay off debts (2-5 years)
- May not qualify for credit until program completed
- Monthly fee

Rebuilding Credit with Help

Debt Settlement

- Credit counseling
- Accounts must be in *collection*; if not, you will be advised to stop making payments
- Make deposits into separate savings account for future settlement
- Contact creditors and negotiates a settlement payment for less than owed
- Disburse settlement payment to creditors

Pros

Pay less than owed

Cons

- High fees
- May have to claim forgiven debt as income on your taxes (1099-C)
- Creditors may still try to collect on accounts
- Immediate damage to credit if had been making on-time payments to creditors before

Rebuilding Credit with Help

Bankruptcy

- Must attend pre-bankruptcy counseling before filing
- File a "means" test for payment plan (Chapter 13)
- Notification to creditors
- Debtor education
- Discharge approval or denied

Pros

- Some or all of debt forgiven
- Maybe faster than repayment plan
- Generally, not taxable (note: there are exceptions)

Cons

- Not all debt forgiven (alimony, child support, taxes, federal student loans, etc.)
- Will affect qualification for new credit (usually 2+ years)
- May be reported for 10 years

Too Good to Be True?



- 3 lbs ground beef
- 100 hamburger buns
- 2 cases of lettuce
- a dozen tomatoes
- Vegetable oil
- brown food coloring
- tweezers
- Superglue
- paintbrush
- waterproof spray
- glycerin and water

Predatory Lending

Source: PBSkids.org

Signs of Predatory Lending

We finance everyone! High-pressure sales

Signing documents on hood of car No proof of income

Fudge your income

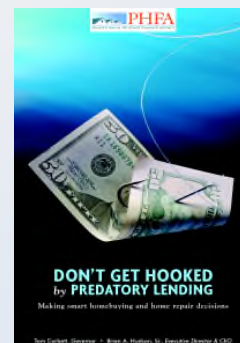
Just a bad feeling No credit? No problem!

Sign a blank form No Truth-in-Lending Disclosure

Changing terms at closing Offers more than you need!


High APR's

Don't worry. We'll take care of everything.



Today's Topics

- Types of Credit
- Getting and Using Credit
- Credit Reports and Scores
- Dissecting Your Debt
- Avoiding Predatory Lending



- Plan and meet obligations
- Limit borrowing to reasonable and manageable levels
- Limit borrowing to pay for items that will improve your financial picture
- Avoid high-cost borrowing; plan, understand, and shop around for best terms
- Order free credit reports every 12 months from each bureau and review for errors and potential problems

Complete Today

Post-session Questionnaire

Click the answer that you believe is best.

1. Which of the following is a type of credit you can use most often?

A. Banking
 B. Installment
 C. Money
 D. Loans

2. Which of the following would increase the cost of credit?

A. Lower fees
 B. Higher loan amount
 C. Lower credit score
 D. Lower fees

3. Which of the following "C's of Credit" refers to a person's credit history?

A. Capacity
 B. Character
 C. Collateral
 D. Conditions

4. Which of the following credit features has the most influence in the FICO scoring model?

A. Amount of debt
 B. Payment history
 C. Interest rate
 D. Assets

5. True or False? There are disclosures that lenders must provide for installing credit, installment loans, and mortgages.

6. Which of the following is credit that has an effect on your credit?

A. Money transfer to a credit card
 B. Depositing an item on your credit report
 C. Making payments through a debit card payment program
 D. Paying a credit line that the debt you owe

7. Which of the following is an example of using credit to your advantage?

A. Borrowing
 B. Borrowing and repaying
 C. Borrowing
 D. Spending money wisely


Session Evaluation

We thank you for today's session and appreciate your feedback. Please take a few minutes and complete an evaluation to help us improve the program. Thank you!

Item	Strongly Dislike	Dislike	Like	Strongly Like
Overall, this session was:				
My understanding of the program was:				
My confidence in my financial future was:				
My confidence in my financial future was:				

Email the Post-Session Questionnaire and the Session Evaluation to:

Now, it's your turn!



PHFA? Borrow to Grow Ex-Offender Reentry Participant Guide

www.Bankingsupportyourfuture.org

Note: For best results, view in Adobe Reader DC or Nuance.

Homework

Self-Assessment and Track Your Progress

Plan to track credit:

I usually pay bills on time

I track the total cost of credit before borrowing

I usually pay my credit card bill on time

I know the interest rate of my credit

Track My Progress:

Track my credit score

Track my credit score

Track my credit score

Credit or No Credit?

Item	Age	Rate
\$40,000	10 years	5.99%
10 years	10 years	5.99%
10 years	10 years	5.99%

