

Become Captain of Your Financial Ship



A Curriculum in Financial
Management

Become the Captain of Your Financial Ship

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Questions

Become Captain of Your Financial Ship

- Charting the Course
- Trimming the Sails
- **Standing Watch**



Standing Watch

- Financial hazards
- Warning signs
 - Paying late or missing payments
 - Paying only the minimum each month
 - Using up your savings
 - Going over your credit limit



Credit Report

- One free copy of your credit report may be obtained each year
 - www.annualcreditreport.com
 - Call toll free 877-322-8228
 - Mail the Annual Credit Report Request Form to:
Annual Credit Report Request Service
P.O. Box 105281
Atlanta, Ga. 30348-5281

Credit Report

- What is it?
- Why is it important?
- Can you change it?
- Can you improve your credit report?

Credit Repair

- Credit Repair Businesses
 - Advertise they can clean up your credit report.
 - Only the creditor or credit reporting agency can legally remove information from your file.
- File Segregation
 - Creates a new identity for the debtor.
 - Illegal, if you use it you could be fined and/or receive a prison sentence.

Credit Scoring

- Credit scoring is a system that creditors use to help determine whether to give you credit.
- Information about you and your credit experience is assigned a score.

Improving Your Score

- Pay bills on time.
- Decrease total amount of outstanding debt.
- Decrease amount of debt outstanding compared to available debt.
- Open a savings account.

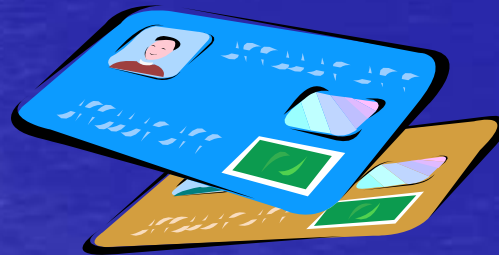
Questions

Building Your Credit Worthiness

- The 3 C's of Credit are important factors used by lenders to determine whether or not to grant you credit.
 - Character – Will you pay?
 - Collateral – Do you have assets to secure the debt?
 - Capacity – Can you repay?

Wise Use of Credit

- How much credit can you afford?
 - Add all your monthly debts.
 - Divide the total of bills by your monthly take home pay.
 - This equals the % of income needed for debt repayment.



Example

- Total monthly debt excluding mortgage/rent and utilities = \$400
- Monthly take home pay \$2,100
 $\$400 \div \$2100 = 19\%$ (percentage of debt)
- Comfortable – 15% or less
- Caution – 15% to 20%
- Danger – 20% or more

Debt Load Limit

- Other factors that impact debt load limit:
 - Stability of income
 - Amount of savings
 - Other expenses
 - Personal needs and wants
 - Debt comfort level

Types of Credit

- Short Term
 - Single payment credit
 - Utilities
- Long Term
 - Car loans
 - mortgages

Types of Credit

- Secured
 - Collateral such as home, automobile, furniture, savings account
- Unsecured
 - Credit cards

Cost of Credit

- Two factors determine the amount of money you pay for the privilege of using credit.
 - Interest rate charged
 - Time given to repay the loan

Example: Mortgage \$100,000 at 6%

Term	Monthly Payment	Total Interest pd	Total paid for house
<i>15 years</i>	\$843.86	\$51,895	\$151,895
<i>20 years</i>	\$716.43	\$71,943	\$171,943
<i>30 years</i>	\$599.55	\$115,838	\$215,838

Questions

Credit Cards

A Blessing or Curse

The Real Cost of Credit Cards

Credit amount \$2,500	APR*	Years to pay off	Total interest paid	Total paid
Repay minimum **	21%	40 years & 8 months	\$11,894	\$14,394
Repay \$100 per month	21%	2 years & 8 months	\$906	\$3,406
Difference	0	38 years	10,988	\$10,988

Questions

Choosing a Credit Card

- 3 Types of Credit Cards
 - Store card (Kmart, Sears, Penny's)
 - Multi-purpose card (Visa, Master Card)
 - Charge Card (American Express, Diners Club)



Terms

- Annual Percentage Rate (APR)
- Grace Period
- Annual Fees
- Late Fees
- Credit Limits
- Transaction Fees

Selecting a Credit Card

- Consider how you will use the card.
 - If you pay the total bill when received, compare the annual fee for best card.
 - If you carry a balance, compare the interest rate and the method of computing the finance charge. Lowest APR is usually the best.

Methods of Computing Finance Charge

- Average daily balance excluding new purchases.
- Average daily balance including new purchases with a grace period.
- Average daily balance including new purchases with no grace period.
- Two cycle average daily balance including new purchases.

Standing Watch

- The Captain and crew must stand watch to avoid hazards of the financial seas.

Questions



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