# THE BIG PICTURE

Publix Employees Federal Credit Union

Bringing Your Financial Future Into FOCUS

Money plays a role in your life every day. From the food you buy to the clothes you wear; where you work to how you get there. Managing your money isn't always easy – that's why you have PEFCU.

As your Credit Union, our goal is to help you feel proud of achieving your financial goals. With this financial guide, you will learn how to responsibly use many of the financial tools available from PEFCU to your advantage, how to create a budget and set realistic financial goals.

If you ever have financial questions, please feel free to contact us. We're here to help – that's our job as your Credit Union!

Your Financial Partner,

Publix Employees Federal Credit Union

Publix Employees Federal Credit Union

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# Introduction

Picturing your future isn't easy; however, planning for it can be. This guide will highlight the financial services available through the Credit Union and teach you how to use these tools to your advantage. Keep this manual in a safe location and use it as a guide for all life's financial events. By understanding and effectively using these financial services, you will make better decisions today that will lead to a financially healthier and more enjoyable tomorrow.




**Readers are encouraged to contact the Credit Union when seeking financial advice on the products and services discussed.**

# The Credit Union Difference

### *What is a Credit Union?*

A **Credit Union** is a not-for-profit financial co-operative owned and controlled by the account holders. Members share a common affiliation, such as place of employment, residence, or membership within a specific organization. The income generated is returned to the members through lower loan rates, higher deposit yields, and lower or eliminated fees. The tax-exempt status awarded by congress to Credit Unions furthers these benefits and provides additional funds for providing members with financial education.

### *Credit Unions vs. Banks*

Credit Unions may appear to operate much like banks; however, there are distinct differences between the two organizations. The most dramatic difference lies behind the reason of their overall operation. Banks operate with the goal of generating a profit for shareholders, or outside investors. Credit Unions focus on helping individual members achieve financial success through a variety of favorably priced financial products and services. Income generated by a Credit Union is returned to the membership as a whole.

**Table 1.1** outlines the major differences between Credit Unions and banks and why membership at a Credit Union is truly a financial benefit.

**Table 1.1**

| Credit Unions | Banks |
|---|---|
| Not-for-profit institutions | Profit-oriented institutions |
| Serve only specific groups of individuals sharing common affiliation | Serve anyone in the general public |
| Volunteer Board of Directors elected by member-owners | Paid Board of Directors; customers have no ownership in the organization |
| Member-service driven | Profit-driven |
| Return profits to members in the form of lower loan rates, higher deposit yields, and lower or eliminated fees | Return profits to a small group of shareholders |
| Federally insured by the National Credit Union Administration (NCUA) | Federally insured by the Federal Deposit Insurance Corporation (FDIC) |

# Managing Your Money

Whether you are planning to purchase a new vehicle, take a well-deserved vacation, or simply want new clothes, effectively managing your money makes everything possible. You may have learned the basics of saving as a child, but now you need to turn this childhood lesson into a real-life routine. *Organization, understanding, and motivation* are the keys to financial success and everything is based upon your ability to effectively manage your savings and spending.

As you begin to create your personal savings plan, take into consideration the following four hints:

1) **Be Realistic** –List *all* your monthly expenses and budget a little extra for unplanned expenses. People often assume they make more than they actually do, so make sure you accurately represent all monthly income.

2) **Be Organized** – Keep all receipts, balance your checking account daily, and keep your monthly budget accurate and up-to-date. Know where all income is spent and try to limit any unnecessary expenses.

3) **Be Motivated** – Set both short and long-term saving goals and monitor your progress. You will gain a sense of accomplishment as you reach your goals and will be motivated to maintain the savings plan.

4) **Be Prepared** – The unexpected will occur and it should be a top priority to create a savings account to help cover these surprise expenses.

### *Creating Your Monthly Budget*

To begin a successful savings plan, you need to create an accurate monthly budget. List all your after-tax income and expenses into a budget similar to that in **Table 2.1**. This budget includes the major expenses most young adults experience and may or may not list all your actual income / expenses. The information presented in this budget will be used as an example within later sections of this financial guide.

In this example budget, you end each month with an extra $300. In order to *be realistic*, you need to give yourself a personal paycheck of 25-30% of your remaining monthly income ($75 in this example). After all, you deserve it for your hard work all month!

As a general rule, you should aim to put 10% of your monthly income into savings. Do your best to limit unnecessary expenses and stay motivated by posting your goals somewhere you will see them often.

Table 2.1

| Monthly Income: | | |
|---|---|---|
| Paycheck (Mar. 5) | $ | 1,500.00 |
| Paycheck (Mar. 19) | $ | 1,500.00 |
| Other | $ | - |
| **Total** | **$** | **3,000.00** |

| Monthly Expenses: | | |
|---|---|---|
| Rent Payment | $ | 1,050.00 |
| Renter's Insurance | $ | 50.00 |
| Car: | | |
| Payment | $ | 300.00 |
| Insurance | $ | 150.00 |
| Maintenance | $ | 20.00 |
| Fuel | $ | 150.00 |
| Food: | | |
| Groceries & Household Items | $ | 300.00 |
| Dining Out | $ | 75.00 |
| Utilities: | | |
| Electric | $ | 120.00 |
| Water | $ | 40.00 |
| Trash Pick Up | $ | 20.00 |
| Cable Television | $ | 65.00 |
| Internet | $ | 35.00 |
| Cell Phone | $ | 70.00 |
| Credit Card Payment | $ | 75.00 |
| Clothing | $ | 100.00 |
| Misc. / Entertainment | $ | 80.00 |
| **Total** | **$** | **2,700.00** |
| Monthly Balance | $ | 300.00 |
| Personal Paycheck | $ | 75.00 |
| Transferred to Savings | **$** | **225.00** |

The key to maintaining an effective monthly budget is to update it daily as you balance your checking account.

### *Setting Your Financial Goals*

**Financial goals** are what help encourage you to maintain an accurate budget and successful savings plan. There are two types of financial goals:

**Short Term Goals** - less than 1 year

**Long Term Goals** - over 1 year

Make a list of your financial goals; both for the short-term and long-term. Estimate the cost of each goal and set a realistic timeline for accomplishing each.

***Short Term Goals:***

New Computer $1,250 (8 months)

Spring Clothes $250 (4 months)

***Long Term Goals:***

New Car (down payment): $2,500 (24 months)

Creating an accurate monthly budget and listing both your short and long-term goals are the first steps in organizing the management of your money. Now is the time to begin incorporating different savings accounts into your personal savings plan.

# Your Personal Savings Plan

The Credit Union offers various savings accounts that will help keep your personal savings plan organized, motivate you to save, and actually earn you more money. The key to using these different accounts is your complete understanding of how they work. By reviewing the most common types of savings accounts offered by the Credit Union, you will learn how you can use each one to boost your savings.

**Save Money To Make Money!**

As part-owner of the Credit Union, you receive the benefit of earning dividends on the money you deposit. The rate you earn dividends will usually be displayed as APY (Annual Percentage Yield). This is the annual interest rate paid to you by the Credit Union and is dependent upon the average balance you maintain in your account.

## Share Savings Accounts (Regular Savings Accounts)

To be an active member of the Credit Union, you must maintain a share savings account. Not only does this account provide you access to the numerous benefits available through the Credit Union, it will also become the foundation of your personal savings plan.

A **share savings account** is a dividend-earning account that provides easy access to your money as needed. You may withdraw money from any of the Credit Union branches or conveniently through ATMs (Automatic Teller Machines). This account is the most basic savings account available and it will serve as your first step in creating a successful savings routine.

### *Features of Share Savings Accounts*

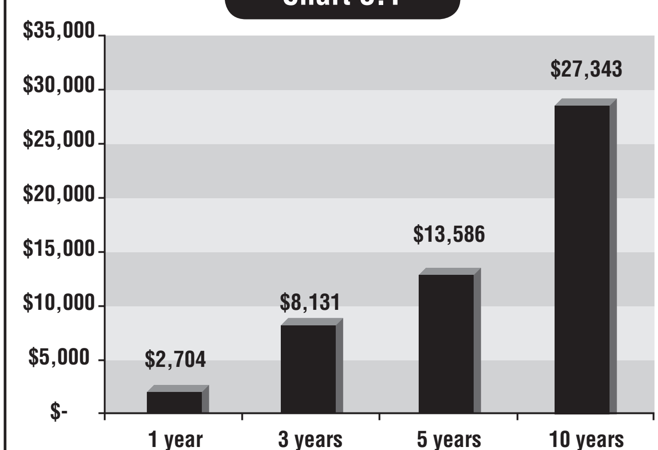
- Dividend-earning account
- Variable dividend rate (rates may change over time)
- Easy access to funds through Credit Union branches and/or ATMs
- Low minimum balance required to open and maintain the account
- Provides numerous benefits as an active Credit Union member, such as higher investment yields and lower loan rates

### *Applying Your Share Savings Account*

While other savings accounts, such as money markets and certificates, generally offer greater dividend returns, they also require larger minimum deposits. In order to take advantage of these other savings accounts you must first begin building your share savings balance and form effective saving habits.

Using the budget from **Table 2.1** on page 3, it was determined you could save $225 per month. Assume the Credit Union is currently offering dividend returns of 0.25% APY (Annual Percentage Yield, compounded monthly) on share savings accounts. Look how your savings plan will grow over the years in **Chart 3.1** with this basic account!

Chart 3.1



You are able to see just how beneficial an effective savings plan can be. Once you have successfully managed your share savings account and created a healthy balance, you should consider higher-earning savings accounts, such as money markets and share certificates.

**Important Note:**

You should aim to keep a balance equal to 1 1/2 months expenses in your share savings account for emergencies.

## Money Market Accounts

A **money market account** is a type of savings account offered by the Credit Union that offers limited transaction privileges. You are limited in the number of withdrawals and transfers you can make from the account each month (usually 3-6 transfers or withdrawals) and are required to maintain a higher minimum balance. In exchange for the minimal limitations on the account, you receive higher dividend returns.

Money market accounts are the perfect second step in your savings plan because you are able to set aside emergency funds. Should the unexpected arise, such as vehicle repairs, you can withdraw money from your account without incurring a penalty.

The dividend rates available for money market accounts may be on a tier system; meaning, the higher your balance, the greater the return you will receive. You will often see tier system money market rates displayed in a format similar to that of **Table 3.1**.

**Table 3.1**

| Account Balance | APY |
|---|---|
| $1,000 - $2,999 | 0.50% |
| $3,000 - $9,999 | 0.75% |
| $10,000 - $24,999 | 1.00% |
| $25,000+ | 1.25% |

APY - Annual Percentage Yield. Compounded monthly. $1,000 minimum balance required to earn dividends.

### *Features of Money Market Accounts*

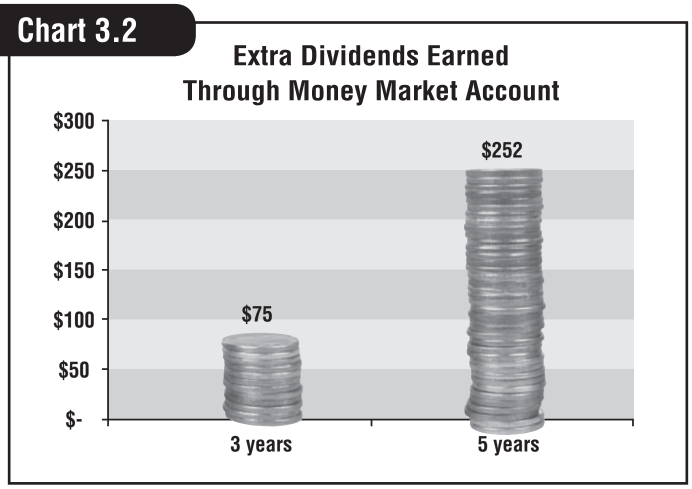
- Higher dividend earning account
- Variable dividend rate (rates may change over time)
- Limited ability to withdraw or transfer money per month
- Greater minimum balance required to open account and earn dividends (i.e. $1,000)
- Tiered format provides additional earning capabilities

### *Applying Your Money Market Account*

Implementing a money market account into your savings plan is beneficial because you will earn higher dividends. However, it is important you do not deplete your share savings account in order to meet the minimum deposit required to open a money market account. Upon opening your money market account, you will begin transferring your monthly savings, $225 in the sample budget, straight into this new account.

**Chart 3.2** estimates the extra earning potential of investing $225 a month into a money market account using the tiers listed in **Table 3.1** versus a share savings account earning 0.25% APY, compounded monthly. Both accounts assume a starting balance of $1,000.

**Chart 3.2**




**Remember:**

Money Market Accounts typically earn variable dividend rates – meaning, rates may increase over time and earn you even more!

As your money market balance continues to grow, begin considering a share certificate. Certificates not only earn you even higher dividends, they help you save more effectively for long-term goals.

> **Important Note:**
> You should aim to keep a balance equal to 3 months expenses in your money market account to cover larger financial emergencies and expenses.

## Share Certificates

A **share certificate** (commonly called a Certificate of Deposit in banking terms) is an account where you agree to invest money at the Credit Union for a designated time period, called a **term**. In exchange, you receive fixed dividend rates that are generally higher than other savings accounts.


While longer terms usually offer the highest dividend rates, you are able to choose the term that best fits within your financial goals. When looking to invest in a certificate at the Credit Union, available rates and terms may be presented in a format similar to **Table 3.2**.

When opening a share certificate, you determine the amount to be deposited into the account (as long as you reach the minimum deposit required, usually $500 - $1,000 per certificate). Because the money is “locked” for the term of the certificate, you are not able to add more funds to this account or withdraw money during the term without a financial penalty. As a result, you earn higher returns on your investment and the certificate actually forces you to save!

> Share Certificates are a great way to save for a down payment on a new vehicle or home!

**Table 3.2**

| Term | APY |
|---|---|
| 1 year | 0.75% |
| 2 years | 1.00% |
| 3 years | 1.50% |
| 4 years | 1.75% |
| 5 years | 2.25% |
| APY - Annual Percentage Yield. Compounded monthly. $500 minimum deposit required. | |

### *Features of Share Certificates*

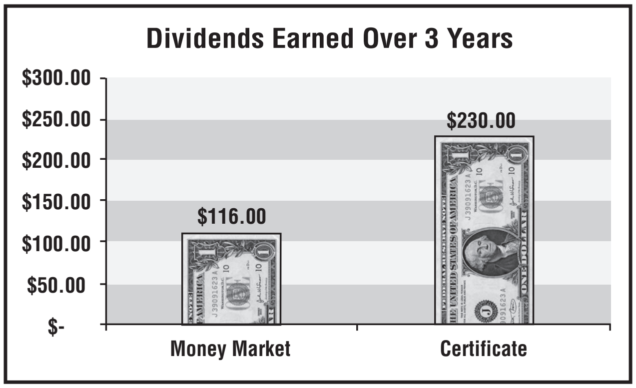
- Higher earning dividend account
- Fixed rates (guaranteed return on your investment)
- Multiple terms available (choose the one that best fits your goals)
- Unable to withdraw funds without a financial penalty
- Not able to add more funds to account once it is opened
- Force you to save

## Applying Your Share Certificate

When preparing to open a certificate, remember these accounts offer higher, fixed dividend rates because the funds are “locked” into the account until the term ends. Make sure there is enough money in your money market and share savings accounts to cover any unplanned financial expenses prior to opening a share certificate.

**Table 3.3**

Compare the estimated earning potential of investing $5,000 into a 3-year share certificate earning 1.50% APY versus keeping the funds in a money market account earning 0.75% APY. Assume you do not add more funds to the money market account during the 3-year period and dividends are compounded monthly.

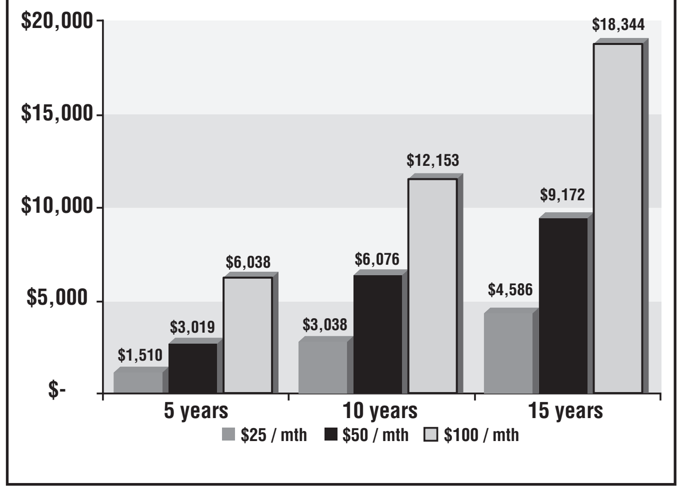



Certificates are very beneficial savings tools, but you must remember you are not able to withdraw funds or add more to the balance during your term. However, you are able to continue depositing monthly savings into your money market account. Certificates offer higher, fixed dividend rates and are designed to force you to save for both short and long-term goals.

Implementing all three savings accounts into your personal savings plan will boost your savings and create a strong financial foundation for you to grow upon throughout your life. Establishing an effective and successful savings plan early is one of the best financial decisions you can make.

You may not be able to afford saving 10% of your monthly income right away, but this should not deter you from starting early in your savings. Look how much you are able to save over the years by depositing as little as $25, $50, or $100 a month into a savings account earning 0.25% APY, compounded monthly.

**Chart 3.3**




***Remember:***

The keys to a successful savings plan require you to

**Be Realistic**

**Be Organized**

**Be Motivated**

**Be Prepared**

**Table 3.4**

| | Share Savings | Money Market | Certificate |
|---|---|---|---|
| Dividends Earned | Good | Better | Best |
| Rate | Variable | Variable | Fixed |
| Term | Unlimited | Unlimited | Fixed |
| Withdrawal | As Needed | Limited | Not Available |
| Savings Plan Step | 1 | 2 | 3 |

# Smart Checking

One of the most common accounts offered by the Credit Union is a checking account, also known as a share draft account. This will become one of the most important accounts you manage because it will often be accessed several times a day.

A **checking account** is a type of account that provides a safer and more convenient alternative than paying cash to an individual or company. You have the ability to replace carrying large sums of money with checks or a debit card.

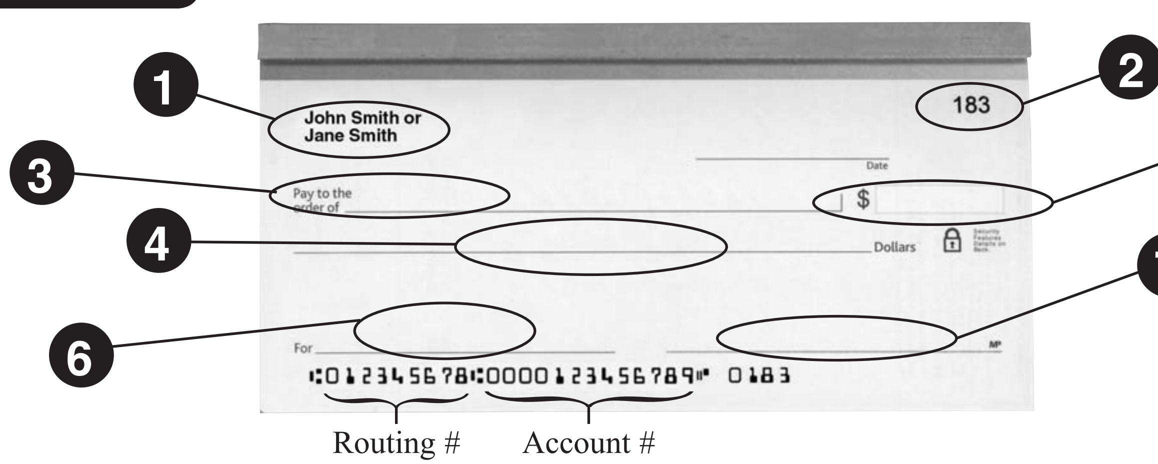
A **check** is a written order to the Credit Union demanding the funds designated on the check be withdrawn from your account and deposited into the account of the individual or company listed by you. The amount you designate on the check must be available for withdrawal from your checking account or it will be returned to you as non-payable.

### *Parts of a Check*

In order to gain a better understanding of how checking accounts work, review **Illustration 4.1**, which outlines the parts of a traditional check.

1) Your personal information including your name and address. It is recommended you do not put your phone number or social security number on your checks. This helps prevent identity theft, which is discussed on page 32.
2) The check number identifies the specific check for tracking by financial institutions and for your personal record-keeping.
3) The pay to the order of or payee is the individual or company you are paying.
4) The written amount provides financial institutions a means to verify the amount payable and help prevent check fraud.
5) The numerical amount designated as payable.
6) This line helps you and the payee know why the check was written. When paying bills, it is common for companies to ask you to write your account number on this line.
7) Your signature makes the check official and allows the transaction to be completed.

**Illustration 4.1**



**Important Note:**

Checks traditionally took 3-5 days to process, meaning the funds designated by you on the check were not withdrawn right away. Recent technological advancements and changes in government regulation now allow instant processing of checks and funds are often withdrawn from your account the same day.

## *Debit Cards*

Checking accounts traditionally allowed payment only by written checks; however, technology created an even more convenient form of payment for account holders. **Debit cards**, commonly called check cards, allow instant payment from your checking account without the need to physically write a check. In addition, they allow you to withdraw money from ATMs and often get cash back right at the checkout line of grocery and convenience stores. You are also able to conveniently make online purchases through your checking account.


There are two ways to pay with a debit card:

1) ***Debit***
When you receive your debit card you will also receive a four-digit PIN (Personal Identification Number). This number allows you to make purchases as Debit and also withdraw money from ATMs. When making a purchase as debit, simply select to pay by Debit at the checkout line, swipe your card, enter your PIN and you are done. *The funds are instantly withdrawn from your checking account.*

Depending upon the store, you may be offered the option of receiving *cash back*. Many large retailers or grocery stores will provide you with this option. When receiving cash back, it is much like using an ATM and there is generally no transaction fee. The amount received is instantly withdrawn from your checking account and is given to you by the retailer.

2) ***Credit***
Some retailers are not set up to receive Debit payments. As an alternative, you are able to pay by Credit. Much like a credit card, you simply swipe your card, sign the receipt and you are done. It is important to remember that when paying with a debit card as Credit, *the amount is still withdrawn from your checking account instantly.* You do not have the option to receive cash back when paying through the Credit alternative.

Debit cards provide a convenient alternative to writing traditional checks. Because debit card transactions are instant, it is very important you keep all receipts and enter them into your check register and monthly budget on a daily basis.

### *Balancing Your Checking Account*

A checking account is a very convenient financial tool that will often be accessed several times a day. It is important to note every check and debit purchase you make.

If you write a check and funds are not available in your account, the check will be returned as a NSF (insufficient funds), or commonly called a "bounced check". Bouncing a check will most likely result in fees from the Credit Union and often a fee from the company you attempted to pay. A checking account is a privilege and if you bounce numerous checks, the Credit Union may close your account.

**Illustration 4.2**

TRANSACTION TYPES: D - Deposit, ATM - ATM Withdrawal, CC - Check/Debit Card, ET - Electronic Payment, AD - Automatic Deposit, T - Tax Deductible, O - Other

| TRANS. TYPE OR CHECK NO. | DATE | DESCRIPTION OF TRANSACTION | PAYMENT / DEBIT (-) | FEE (IF ANY) (-) (✓) | DEPOSIT / CREDIT (+) | BALANCE $ 300 00 |
|---|---|---|---|---|---|---|
| 201 | 1/30 | Drug Store | 10 39 | | | 289 61 |
| D | 2/1 | Deposit | | | 500 00 | 789 61 |
| ATM | 2/3 | Corner Groceries | 150 00 | | | 639 61 |
| ET | 2/5 | State Power Company | 75 47 | | | 564 14 |
| 202 | 2/14 | Flower Shop | 18 29 | | | 545 85 |

Upon opening the account, you will receive a booklet called a **check register** to keep your checking account in balance. This register is the most important tool in keeping your checking account balance up-to-date. **Illustration 4.2** provides an example of a general check register and how it is used.

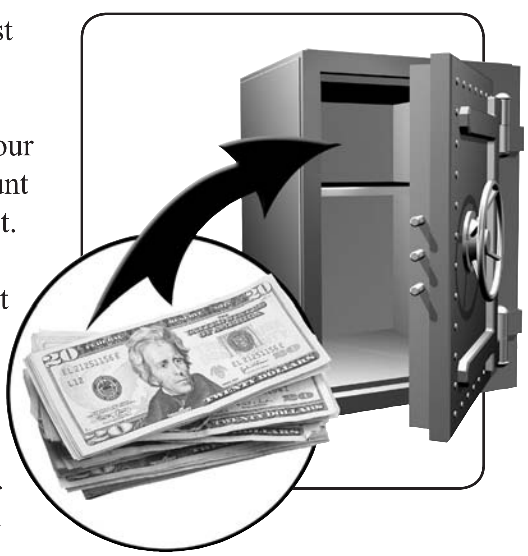
After writing a check, immediately enter the transaction into the check register. If you make a debit payment, save the receipt and enter the transaction into your register later that same day.

Each month, you will receive a statement from the Credit Union listing all the transactions made from your checking account for that period. Use this statement to verify your check register is in balance.

As an additional balancing tool, log onto the Credit Union online banking system to access your account balance 24 hours a day.

## *Enhancing Your Checking Account*

### *Direct Deposit*



One of the most convenient enhancements available for your checking account is direct deposit. This service is offered by most employers and instead of issuing you a written paycheck, your pay is instantly deposited into your checking account electronically on payday.

Using this free service offers several benefits:

- You do not have to physically visit the Credit Union to deposit your paycheck
- Your funds are available for immediate withdrawal – no holds will be placed on your check
- You eliminate the risk of losing your paycheck and waiting for another to be issued
- When on vacation or out-of-town, your paycheck is automatically deposited and funds are available to be withdrawn instantly

To set up direct deposit, simply visit your company's payroll office and provide them with a voided check from your Credit Union account. It only takes a few minutes to set up and it really is that easy!

### *Overdraft Protection*

Should you accidentally forget to note a transaction, you may be able to avoid a bounced check with this service. If a check is written and funds are not available in your checking account, but are available in your savings, overdraft protection withdraws the needed funds automatically from your share savings account. This service can be used a limited number of times each month (usually 5 times) and you are able to opt out of this service should you desire.

Overdraft protection is a convenient means to prevent bouncing a check and the fees that will likely result. In basic form, it serves as a type of back-up protection in case you write a check for an amount which is not available in your checking account.

### *Electronic Bill Pay*

Save time and money with the convenience and security of electronic bill pay. This service allows you to pay any company or individual straight from your checking account with the click of the mouse. There is no need to write a check, mail your payment and wait for the funds to be withdrawn from your account. Bill pay is easy and hassle-free.

- Save time as you no longer need to write and mail a check – simply enter the amount online and click "pay"
- Save money by eliminating the need to pay for postage for each bill
- Easily set up recurring payments to be automatically paid on the dates you choose
- Schedule payments in advance if you are going on vacation
- Prevent identity theft by no longer sending checks through the mail
- Quickly monitor your transaction history online

## *Features of a Checking Account*

- Convenient alternative to making payments instead of using cash or purchasing a money order
- Safer by eliminating the need to carry or exchange large sums of money
- Allows instant payments through checks and/or your debit card
- Must be balanced daily to prevent bounced checks
- Direct deposit provides a convenient and timely alternative to depositing your paycheck
- Overdraft protection helps eliminate bounced and returned checks if you forget to balance your account
- Electronic bill pay eliminates the hassle of paying bills and saves you time and money
- 24 hour online and phone banking assist you in balancing your account anytime

## *Applying Your Checking Account to Your Savings Plan*

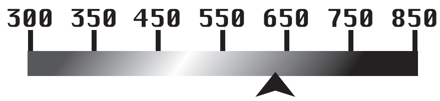
Initially your best option is to set up direct deposit of your entire paycheck into your checking account. At the end of each month, make sure all your transactions (checks and debit card purchases) have cleared your account. Transfer the amount left over, which was $225 in the example budget in **Table 2.1** on page 3, into your savings account.

This practice puts all your available funds into your checking account and helps prevent bouncing a check. Once your monthly expenses level out and you are comfortable with your monthly budget, you may wish to deposit a certain amount of each paycheck instantly into your savings account.

For example, instead of depositing $225 into your savings account at the end of each month, you may want to deposit $112.50 of each paycheck (if paid bi-weekly) into your savings account instead.

Checking accounts are one of the most common, yet important financial accounts you will manage. They are a privilege and require responsibility in balancing the account each day a transaction is made.

# Understanding Your Credit Score




**Credit** refers to the act of borrowing money from an individual or company with the agreement to repay the borrowed amount over a designated period of time. Usually, the borrower will pay the lender interest on the loan as a form of payment for the service.

As with most Americans, you will probably need to borrow money at some point in your life, whether to purchase a new vehicle, home, or just extend routine purchases with a credit card. It is important to note that lenders, such as the Credit Union, assume risk when lending money and if you are viewed as a high-risk, your request for a loan will likely be denied or you may be required to pay a higher interest rate. There are many ways you can minimize your credit-risk and the most common comes in the form of your credit score.

## *What is a Credit Score?*

A **credit score** is a three-digit number ranging from 300-850 that is used by lenders to determine whether you are a risk in terms of lending you money. The higher your score, the less risk you are for the Credit Union, resulting in lower interest rates on loans.

The score provides the Credit Union with a simple means of analyzing your credit history and your ability to repay loans. **Your credit score is one of the few numbers that will dramatically impact your entire adult life**. Understanding how this number is calculated will help you increase your creditworthiness and simplify many aspects of your financial life.

## *What Determines Your Score?*

Credit scores are determined by using set formulas, which vary slightly between the different National Credit Bureaus (Equifax, TransUnion, and Experian). Review the main components used in determining your credit score.

### *Payment History*

One of the greatest determinants of the credit report scoring system is based upon how well you pay your bills. This includes any late payments made, the number of bills that were sent to collection, if you ever had a vehicle or home repossessed, or whether you ever filed for bankruptcy. The more recent these unfavorable aspects, the greater the negative impact on your score.

### *Outstanding Debt*

This section of your credit score is dependent upon how much you currently owe, such as credit card balances, vehicle loans, mortgages, and student loans. As a general rule, try to maintain balances of less than 25% of your available credit limit on your credit cards. The more you owe, the greater the risk for the Credit Union in terms of loaning you money.

### *Length of Credit History*

Lenders will be able to make better predictions of your ability to repay the loan based upon how long you have successfully managed your credit and outstanding debt. The longer your credit history, the better in terms of your credit score.

### *Number of Inquiries*

Every time a creditor reviews your credit report, an inquiry record will be noted. The Credit Union, for example, will be listed as an inquiry on your credit report when you apply for a new vehicle loan. Inquiries are necessary when you apply for any type of loan; however, the negative aspects of inquiries result when several reviews of your credit report take place in a short period of time. This leads lenders to believe you may be in financial trouble and are applying for loans and credit cards from multiple lenders at once.

### *Types of Credit Maintained*

There are two types of debt; secured and unsecured. **Secured debt** is when you purchase an item, such as a home or vehicle that can be repossessed by the Credit Union should you default on the loan. **Unsecured debt** is a loan that does not have any collateral that can be obtained by the Credit Union should you not be able to repay the loan. Credit cards and personal loans are examples of unsecured debt. The more unsecured debt you maintain, the greater the financial risk you are in terms of lending and this negatively affects your credit score.

### *Benefits of Good Credit*

Maintaining good credit is one of the most important aspects of your adult financial life. Your credit score not only determines if you will be approved for the loan, but determines how much the loan will cost. The higher your credit score, the lower the rate you will pay to borrow the money you need.

Lenders often use credit score tiers to easily determine the cost of your loan. These tiers vary by lender. Review **Table 5.1** to gain an understanding of how a higher credit score reduces the cost of borrowing.

**Important Note:**

Many utility companies, such as electric or water, may waive the deposits required for their services if you have good credit!

### *Tips on Increasing Your Score*

Your credit score changes each time your credit report changes. Taking steps to continuously improve your score is the foundation of maintaining the benefits of good credit.

- Obtain a copy of your credit report annually and review it for any errors. Eliminating these errors could dramatically increase your score. (You are able to receive a copy of your credit report free each year from **www.annualcreditreport.com**)
- Upon receiving a copy of your credit report, you may find credit cards you no longer use or have a $0 balance. Do not be quick to close these accounts because creditors use these cards when calculating your debt-to-credit ratio.

  Your **debt-to-credit ratio** is determined by dividing your total current debt by your available credit. There is no designated number that is needed to have a favorable ratio; however, the lower your debt-to-credit ratio the better. The more available credit you have that is unused, the lower your debt-to-credit ratio.
- Keep your oldest credit cards active because creditors look at the average age of your loan accounts. The older accounts increase this average and help your score.
- Maintain balances under 25% of the available credit limit on your credit cards. This betters your debt-to-credit ratio and demonstrates your ability to manage credit responsibly.
- Pay your bills on time, every time! If you encounter unexpected expenses, instead of not paying a bill, contact the Credit Union. You may be able to receive an extension on the payment or obtain a short-term loan to cover the expenses.

  *Your payment history has the greatest effect on your score* and you should at least pay the minimum amount due every month.
- Avoid applying for many loans or credit cards at the same time. Doing so will increase the number of inquiries on your credit report and cause alarm for creditors.

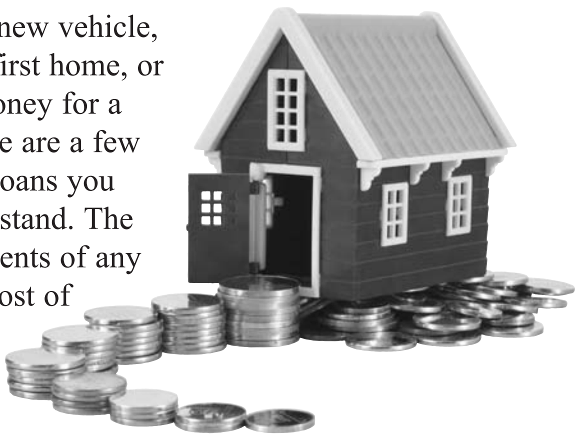
**A good credit score enables you to borrow from the Credit Union and helps determine the price you will pay for the loan. Maintaining a good credit score should be one of your top financial priorities from this day forward.**

**Table 5.1**

| Credit Rating^ | A (720+) | B (680-719) | C (640-679) | D (500-639) | E (460-499) | F(460-) |
|---|---|---|---|---|---|---|
| Interest Rate | 5.00% | 5.50% | 7.00% | 9.00% | 11.00% | 13.50% |
| Cost of Loan* | $3,307 | $3,652 | $4,702 | $6,138 | $7,614 | $9,515 |

*Assumes $25,000 loan amount over 60 month term. ^Each lender has their own scoring tiers. This example is for illustrative purposes only.

# Borrowing Smart



As you begin to consider purchasing a new vehicle, buying your first home, or borrowing money for a vacation, there are a few basics about loans you need to understand. The main components of any loan are the cost of financing, the security of the loan, and the term.

## *Cost of Financing*

When borrowing money from the Credit Union, you are not only required to repay the amount borrowed, but also interest added on to the loan. The interest added is the cost of financing with the Credit Union.

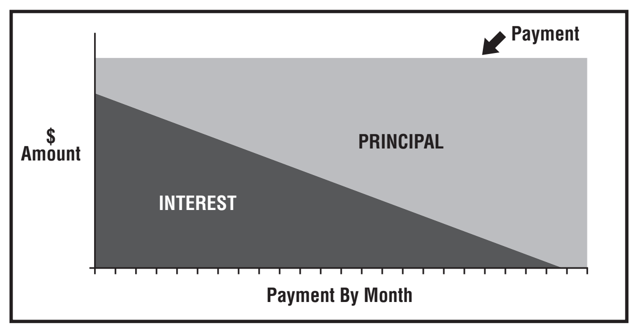
Interest is usually displayed as an APR (Annual Percentage Rate) and is used to represent the annual interest rate charged, plus any fees related to the loan. Financial institutions are required by law to disclose this rate so you may easily compare loan products between various lenders.

### *Loan Amortization*

It is important to understand how interest is applied to your loan because you may be able to significantly lower your overall cost of financing. When you begin repaying your loan, the majority of your monthly payments consist of the interest charged by the lender. As you progress through the loan term, you pay more and more towards the loan principal (the actual amount borrowed) and less interest.

The following illustration presents a simple example of how loan amortization works.

**Illustration 6.1**




## *Security of the Loan*

Before applying for a loan at the Credit Union, you should have a basic understanding of the type of loan that is best for you and how it will affect your monthly payments. There are two general types of loans; secured and unsecured loans.

### *Secured Loans*

A **secured loan** is when something is offered as collateral in exchange for the loan. Should you be unable to repay the loan, the Credit Union will legally obtain the item listed as collateral for repayment. Secured loans generally offer lower interest rates because the Credit Union is able to recover the majority of the loss on the loan.

Examples of general secured loans include vehicle or home loans where the vehicle or house financed will be repossessed by the Credit Union should you default on the loan.

### *Unsecured Loans*

An **unsecured loan** is a loan not backed by any form of collateral other than the borrower's agreement to repay to balance. This type of loan generally maintains higher interest rates than secured loans because the Credit Union assumes a greater risk without any form of collateral backing the agreement. Credit cards and personal loans are examples of unsecured loans.

## *Loan Terms (Time Frame)*

The **term** of a loan defines the amount of time available to repay the amount borrowed. Different types of loans offer different term options. Vehicle loans, for example, may include the option to finance for 36 months or as long as 72 months. Unsecured loans, such as personal loans, typically have shorter repayment periods unless they are a revolving-line-of-credit.

A **revolving-line-of-credit loan** is an open-ended loan, meaning there is no designated end of the loan. You are approved for a limited amount you are able to borrow and as long as you do not go over this limit, you may continue to borrow as needed. An example of a revolving-line-of-credit is a credit card.

In general, longer terms provide lower monthly payments. But as you will see in the following example, longer terms may also increase your cost of financing.

**Table 6.1**

| | |
|---|---|
| The Credit Union approved your loan request to purchase a new vehicle priced at $25,000. Your interest rate is a low 3.75% because the loan is secured and you agreed to a term of 60 months. | Loan Amount = $25,000<br>Loan Rate = 3.75%<br>Loan Term = 60 months<br>Monthly Payment = $457.60<br>Cost of Financing = $2,455.90<br>Total Amount Paid = $27,455.90 |
| Notice how changing the loan term from 60 months to 72 months lowers the monthly payment, but increases the cost of financing. | Loan Amount = $25,000<br>Loan Rate = 3.75%<br>Loan Term = 72 months<br>**Monthly Payment = $388.29**<br>**Cost of Financing = $2,956.78**<br>**Total Amount Paid = $27,956.78** |
| Using your knowledge of how loan amortization and costs of financing work, you are able to view how paying extra towards the principal owed each month can significantly reduce the loan cost. Assume you are able to pay $600 per month instead of the required $483.47. | Loan Amount = $25,000<br>Loan Rate = 3.75%<br>**Loan Term = 42 months***<br>**Monthly Payment = $600**<br>**Cost of Financing = $2,216.37**<br>**Total Amount Paid = $27,216.37** |

* The term of your loan will decrease because you are making larger than required payments.

# Spending With Plastic (Credit Card Basics)

Everyday people benefit from credit cards while others put themselves into serious financial trouble. In early 2011, U.S. consumer credit card debt was nearly $800 billion and the ability to easily be approved for credit cards will keep this number rising.

While credit is one of the leading causes of financial problems for adults of all ages, you are able to experience many financial benefits if used responsibly. The key to managing credit is through your understanding of how credit cards work.

### *Credit Card Basics*

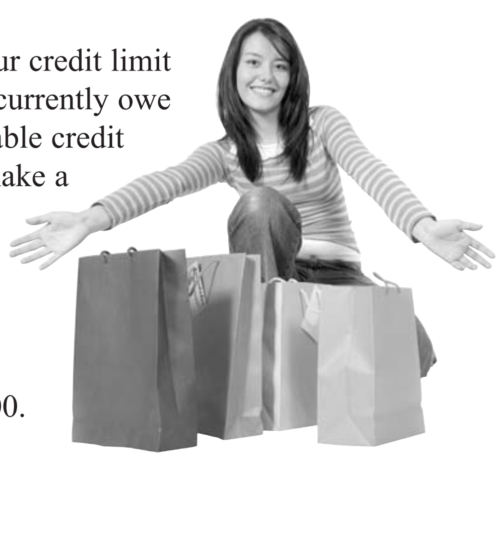
Too often people forget that credit cards are actually loans and you are required to repay the amount borrowed plus interest. Credit cards are a type of loan called a **revolving-line-of-credit**.

Characteristics of this loan type include:

- a set credit limit or maximum amount available to borrow
- fixed or variable interest rates
- no designated maturity date
- require a minimum monthly payment, usually 2-4% of the outstanding balance
- may charge an annual usage fee

Your **credit limit** is the maximum amount you are approved to borrow. The more you spend, the less available credit you have. As you repay the owed balance, the available credit increases.

For example, if your credit limit is $5,000 and you currently owe $2,000, your available credit is $3,000. If you make a payment of $500, your current balance decreases to $1,500 and your available credit is now $3,500.



This cycle will continue indefinitely or until you repay the entire balance owed. In exchange for the convenience of credit, each month you are charged interest on the total amount borrowed.

**Remember:**
Credit cards are unsecured loans and the interest rates charged are usually higher than secured loans.

### *Benefits of Credit Cards*

The convenience offered by credit cards make them very beneficial if used responsibly. Some advantages of credit include:

- Accepted by most major retailers worldwide
- Quick and simple shopping (in person, online, or by phone)
- Purchase costly items now and repay over time
- Able to obtain a cash advance if needed
- Provide immediate funds in an emergency
- Eliminate need to carry large amounts of cash

### *Tips to Manage Credit Card Debt*

While credit is a convenient and beneficial financial tool, it must be managed responsibly. Credit card debt is one of the leading causes of financial trouble that people face today. The following tips will help prevent credit problems:

**Obtain a credit card from a financial institution you trust**. You will most likely receive credit card offers regularly through the mail or email. Many of these offers will have low introductory rates or other desirable aspects; however, the fine print will often lead to many unexpected charges or high interest rates. Opening a credit card with the Credit Union is one of the best options because their not-for-profit status proves they are not trying to trick you with hidden fees or fine print gimmicks.

**Only spend 25% of your available credit limit**. This rule of thumb will help keep your credit score favorable and reduce your debt-to-credit ratio. Plus it helps you maintain a manageable credit balance on your card.

**Always pay more than the minimum amount due**. Each month, your minimum payment will usually only be between 2-4% of your total outstanding balance depending upon your specific card. Paying only the minimum amount due can cause you to pay significantly more interest, as illustrated in the following example.

**Table 7.1**

Assume your credit card balance is $1,000 and you do not add more to the card.

Review how making only the minimum payment required will cost you more than the original amount borrowed.

| | |
|---|---|
| Current Balance | $ 1,000 |
| Interest Rate | 15% |
| Time Required to Repay Debt | 172 months (14 yrs and 4 mths) |
| Total Interest Paid | $1,123 |
| **Total Amount Repaid** | **$ 2,123** |

**Avoid cash advances**. When you obtain a cash advance on your credit card, the interest rate charged is usually higher and there may be fees that accompany the advance. Cash advances should only be used in emergencies. Other alternatives, such as a personal loan from the Credit Union, are often better financial alternatives.

**Make your payment on time each month**. This is one of the most important tips because late payments not only hurt your credit score, they result in costly fees. While the actual fee charged is dependent upon your specific credit card, they are usually over $25.

## *Choosing the Right Card*

Credit cards all function in the same general manner of a revolving-line-of-credit loan; however, they are also different in many aspects. Determining the card that best meets your needs will require research and your understanding of key terms used in credit card applications.

**Annual Fee** – An annual fee may be charged on the credit card as payment for using the service. This fee is in addition to your monthly interest charges and usually ranges from $15 - $100.

**APR (Annual Percentage Rate)** – The amount of interest you pay is determined by the rate designated on your application or approval notice. The better your credit score, the lower your rate will usually be. Your credit card may offer either fixed or variable interest rates.

**Fixed rate** credit cards will charge the same interest rate for the life of your credit account. The interest rate on **variable rate** cards may increase as disclosed in your card agreement.

**Cash Advance** – Credit cards usually allow you to withdraw cash from an ATM using the PIN provided with the card. Review any fees, the interest rate charged on the advance, and any limitations. These charges are usually higher than regular fees and interest rates.

**Grace Period** – The designated time period where you are able to repay your full outstanding balance without incurring any interest charges is known as the grace period. This only applies if you started the month with a $0 balance and you repay the entire amount owed on the card. Grace periods usually range from 25-28 days and typically do not apply to cash advances.

**Remember:**
Manage credit card debt responsibly and obtain a card from an institution you trust.

# Financing Your New Ride (Car Buying Tips)

Purchasing a new vehicle is exciting and the goal of this section is to ensure you have a pleasant car buying experience. The biggest mistake people make is walking into a dealership without understanding how the overall car buying process works. There are several steps you need to complete prior to ever stepping foot onto a car lot and the Credit Union can provide you with a tool that may practically eliminate the dreaded price negotiations.

### *Do Your Homework*

Before you walk into a dealership or apply for a loan, begin researching the vehicles you are considering. The Internet allows you to gather a great deal of information quickly without the hassle of salespeople. As you begin your search, look for information such as:

- Vehicle invoice prices (the price the dealership paid for the car)
- Performance reviews
- Sale prices at multiple dealers, including add-on prices
- Rebates or promotions offered
- Safety features
- Fuel efficiency (miles per gallon)
- Trade-In value of current vehicle
- Car history report if purchasing a used vehicle

This step can dramatically help reduce the overall price you pay for your new vehicle. Imagine you are able to save $1,000 by spending 5 hrs researching your new vehicle - you just earned $200 an hour!

### *How Much Can You Afford?*

In addition to the price of the new vehicle, there are many costs associated with car buying that are not factored into your loan. When deciding how much you can afford to pay, you must also apply these additional costs to your monthly budget.

Using the example budget from **Table 2.1** on page 3, you are currently able to put $225 each month into your personal savings plan. It is important you keep up with your savings and prevent decreasing this monthly savings amount. To do this, review a few expenses you are currently paying in the following example.

**Table 8.1**

| | Current Vehicle | New Vehicle |
|---|---|---|
| Payment | $ 300.00 | **$ ????** |
| Insurance | $ 150.00 | $ 175.00 |
| Fuel | $ 150.00 | $ 120.00 |
| Maintenance | $ 20.00 | $ 20.00 |
| Total | $ 620.00 | $ 315.00 |

Notice your insurance increases because the vehicle is new and your fuel costs decrease due to better gas mileage. You can now afford your monthly payment to be $305.

### *Vehicle Costs*

The price of a new vehicle extends beyond the actual amount financed. Reviewing the general costs associated with your new car will help you determine how much you can afford to pay each month.

**Vehicle Price** – The largest portion of the total amount financed will be the final sale price of the vehicle.

**Sales Tax** – One of the most commonly overlooked costs when purchasing a vehicle, sales tax can greatly increase the final price of your vehicle. Considering a $25,000 vehicle price with a 7% sales tax rate, the tax equals $1,750, already increasing the price to $26,750.

**Vehicle Registration & Title** – Registering your vehicle and transferring the tag and title may or may not be included in the vehicle price. You can contact your local DMV to obtain registration costs.

**Car Insurance** – Contact your insurance company and use the information you gathered in step #1 to obtain new insurance quotes (be sure to list all safety features because they can lower your overall insurance costs). It is important you do this step prior to purchasing the vehicle. New cars are typically more expensive to insure and the increased costs could have a large affect on your monthly budget.

**Fuel Costs** – Use **Table 8.3** on page 20 to estimate your new monthly fuel costs.

**Monthly Maintenance** – You may or may not have maintenance expenses each month. However, it is better to overestimate monthly expenses than to not budget for them at all.

## *Trade-In Value*

If you currently own a vehicle that you plan to trade-in, research the estimated current value. You can do this by obtaining the Kelly Blue Book value at www.kbb.com or the NADA value at www.nada.com. Both guides are used by dealerships when determining the value of trade-ins. The Credit Union can also provide you with an estimated trade-in value of your current vehicle.

> **Car Buying Tip:**
> Agree upon the final purchase price of the new vehicle first, and then mention you are trading in your current vehicle. This helps eliminate the trade-in value from the negotiation process.

If you still owe money on your current vehicle, you will need to determine if you have any trade-in equity. **Trade-in equity** is the difference between the vehicle's trade-in value and the current loan balance. This will help reduce the overall cost of your new vehicle and the monthly payments.

For example, if your estimated trade-in value is $10,000 and you still owe $6,000, the trade-in equity would be $4,000.

## *Down Payment*

A **down payment** is cash paid up front to help reduce the amount to be financed for the vehicle and will lower your monthly payments. Down payments are usually not required, but are strongly encouraged. Most lenders prefer you make at least a 10% down payment.

> **Car Buying Tip:**
> Do not mention to the dealership you will be putting a down payment on the new vehicle until the final price has been agreed upon.

Using **Tables 8.1** and **8.2**, you are able to estimate the total cost of the new vehicle and how much you can afford to pay monthly without interrupting your savings plan. However, **Table 8.2** leaves out one very important cost – the cost of financing.

The cost of the loan is determined when the Credit Union reviews your credit report and current financial situation. Your next step is to visit the Credit Union, where you will finalize the loan cost and obtain your most powerful car buying tool - your pre-approval.

**Table 8.2**

| | | Example |
|---|---|---|
| Vehicle Price | (A) | $ 25,000.00 |
| Registration, Tag, Title | (B) | $ 200.00 |
| **Subtotal (A+B)** | (C) | $ 25,200.00 |
| Trade-In Value | (D) | $ 10,000.00 |
| Current Trade-In Loan Balance | (E) | $ 4,000.00 |
| Trade-In Equity (D-E) | (F) | $ 6,000.00 |
| **Subtotal (C-F)** | (G) | $ 19,200.00 |
| Down Payment | (H) | $ 3,000.00 |
| **Subtotal (G-H)** | (I) | $ 16,200.00 |
| Sales Tax (I*tax rate) | (J) | $ 1,134.00 |
| **Total Loan Amount (I+J)** | | $ 17,334.00 |

**Table 8.3**

| | | Example |
|---|---|---|
| Estimated Miles Traveled (monthly) | (A) | 960 |
| Fuel Efficiency of New Vehicle (MPG) | (B) | 30 |
| Estimated Gallons of Fuel (monthly) **(A/B)** | (C) | 32 |
| Average Fuel Cost Per Gallon | (D) | $ 3.75 |
| Estimated monthly Fuel Cost **(C*D)** | | $ 120.00 |

**What to Bring?**

Before you head to the Credit Union, make sure you have your (2) most recent pay stubs, your driver's license and completed Tables 8.1 & 8.2.

## *Visit Your Credit Union*

The main goal of the Credit Union is to provide trusted advice as you progress through the car buying process. There are many financial tools and services available through the Credit Union and it is strongly recommended you take advantage them.

When you meet with a Credit Union loan officer, show him/her a copy of completed **Tables 8.1** and **8.2**. Using this information, they will be able to review your credit report and determine how the cost of financing and the various terms available will affect your desired monthly payment.

### *Co-Signer*

Depending upon your credit history and financial situation, you may not be able to obtain financing from the Credit Union. However, this is not the end of the road. You may be able to have a co-signer on your loan.

A **co-signer** is someone who agrees to repay the loan should you be unable to do so. Whether a parent or other relative, the co-signer must have good credit and be financially able to repay the loan, if necessary.

**Important Note:**

Before asking someone to be a co-signer, ask yourself why you need one. You may be trying to purchase more than you can afford, which may lead to other financial problems in the future.

### *Eliminating Negotiations*

Many people dread the thought of negotiating over the price of their new vehicle with dealerships. Don't let this fear get in the way of owning your new car. The Credit Union is able to provide you with a tool that will put the negotiating power in your hands.

When you apply for a vehicle loan at the Credit Union, you will receive a pre-approval.

A **pre-approval** lists the total amount you are approved to borrow from the Credit Union. This is a powerful tool because:


1) It shows the dealership you are approved and ready to buy

2) The dealership knows they cannot sell you a vehicle for more than is listed on your approval

When a dealership knows you are pre-approved by the Credit Union, they need to price their vehicles within this amount if they want your business.

For example, if the final price of the vehicle is $26,500 and you are approved for $25,000, they may reduce the cost to your approved amount to make the sale.

Your pre-approval is a very beneficial tool that will often put you in charge of price negotiations. However, you should expect the dealership to try a few common tricks of their own.

## *Dealership Tricks & Tactics*

Pre-approvals are powerful negotiating tools in your favor and dealerships will often try to convince you not to use one. Review a couple common dealership tactics and why financing at the Credit Union is your best choice.

***0% Financing***

Dealerships will often advertise 0% APR (Annual Percentage Rate) financing to attract buyers; however, this is not always a good deal. Review the fine print of the special rate and you will often find restrictions that require you to:

- Forfeit any current rebates or incentives
- Repay the loan within a designated time period of 2 or 3 years
- Have a near perfect credit score
- Place a significant down payment on the vehicle
- Choose from a selected few vehicles

Even if you are approved for the special rate, you may be paying more than you think when forfeiting all rebates and incentives. Review the difference between 0% APR financing and a $3,000 rebate.

**Table 8.4**

| | Dealership | Your Credit Union |
|---|---|---|
| Purchase Price | $20,000.00 | $20,000.00 |
| Dealer Rebate | $ 0 | $ 3,000.00 |
| Interest Rate | 0% | 5.00% |
| Term (months) | 60 | 60 |
| Monthly Payment | $ 333.34 | $ 320.81 |
| Total Loan Cost | $20,000.00 | $19,248.60 |

**You actually pay $751.40 more with 0% APR financing!**

***Add-Ons***

If you are sticking to your pre-approval from the Credit Union, dealerships will often wait until after the final price has been agreed upon for one last trick. When you enter the finance office, they will offer you additional options and services for the vehicle.

The reason dealerships do this is because if they can persuade you to add the options, the final price will eventually become higher than your pre-approved amount. To avoid this trick, agree to the final price within your approved amount prior to entering the finance office and stick to it.

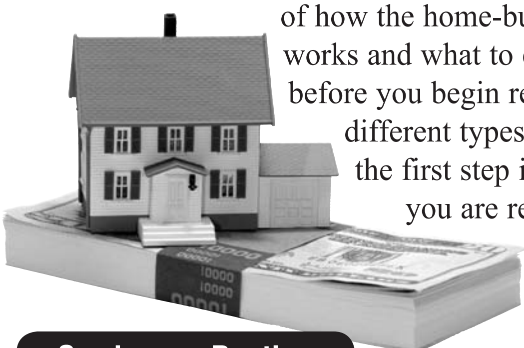
**Important Note:**
The Credit Union usually offers GAP (Guaranteed Asset Protection) and maintenance/extended warranty plans similar to those offered by dealerships at a much lower price! Ask about these services when you first apply for your loan.

Purchasing a new vehicle is an exciting experience, but requires understanding and work on your part. Follow these simple steps, use the Credit Union's services to your advantage and drive away knowing you received a good, hassle-free deal.

1) **Do your homework**
2) **Stay within your budget**
3) **Obtain a pre-approval from the Credit Union**
4) **Stick to your approved amount**

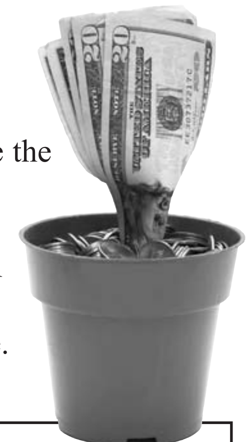
# Owning Your Own Castle (Mortgage Overview)

Owning your home is an American dream that becomes a reality for many every day. Home ownership comes with many benefits, but the upfront costs and financing requirements may become discouraging to some. As the largest purchase and investment you will probably ever make, buying a home requires a basic understanding of how the home-buying process works and what to expect. However, before you begin researching the different types of mortgages, the first step is to make sure you are ready to own a home.



The initial costs of purchasing a home may deter you from buying the home; however, purchasing a home is a long-term investment with many advantages. With help from the Credit Union and a good realtor, you may be able to find a home with a monthly mortgage payment equal to what you pay in rent.

When you rent, you will never see the money you pay monthly again. If you spend $800 a month in rent, that is $9,600 a year you will never get back; $9,600 you could have invested into owning a home.



## Owning vs. Renting

### Homeowners:

**Advantages:**

- Experience a greater freedom in regards to decorating, remodeling, upgrading their living space
- Build equity that can eventually be used to fund additions or upgrades to the home, help consolidate debt, finance events such as weddings or higher education, or even purchase a vehicle
- Receive tax deductions on the mortgage interest paid (*consult your tax advisor for deduction information*)
- Will eventually own the property and eliminate monthly housing payments completely

**Disadvantages:**

- Pay large upfront costs when purchasing a home
- Are tied to their home until sold, which may require time and money
- Are required to maintain their investment including any necessary repairs, such as painting, roofing, electrical or landscaping
- Pay higher insurance costs and are required to pay property taxes

### Renters:

**Advantages:**

- Do not have to pay property taxes or structural property insurance (only renter's insurance)
- Do not have to worry about maintenance or lawn care
- Monthly rent payment may be cheaper than a mortgage payment
- Are not tied down to the home until it sells in the event you plan to move

**Disadvantages:**

- Are unable to build equity in a home, which may be used to help consolidate debt or finance events such as weddings or higher education
- Don't receive the tax benefits of home ownership
- Are unable to decorate as you please (limited on hanging pictures, painting, etc)
- Will never see the money spent on rent again

## *What is a Mortgage?*

Since the total cost of a new home is most likely out of reach, you will need to borrow money in order to purchase the property. To do this, you will need to use a debt instrument called a mortgage. A **mortgage** creates a lien, or pledge against the property, that states if you are unable to repay the borrowed funds, plus interest and related fees, the lender will assume ownership of the property.

When you finance your home, the title of ownership is given to the financial institution that loaned you the necessary funds. The title will remain in their possession until the total debt is repaid, wherein the title will be transferred to you.

## *Parts of a Mortgage:*

In defining mortgages, it is important to understand what makes up your mortgage payment. It is easy to overlook components of your monthly mortgage payments, especially as a first-time home-buyer. Advertisements claiming low monthly payments are often leaving sections of your payment out, such as property taxes and insurance, which play a significant role in determining your final payment amount.

**Principal** is the portion of your payment that actually repays the amount borrowed. **Illustration 6.1** on page 14, presents the basics of loan amortization and how principal is applied to your loan repayment schedule.

**Interest** and related fees make up the largest portion of your initial mortgage payments. This is the cost of the loan and may be tax deductible (check with your tax advisor for deductions).

**Taxes** related to your property will most likely be added to your mortgage payment and transferred into an escrow account. This helps spread out your property taxes over the year versus one single payment at year-end.

**Insurance** on your mortgage will also be added to your monthly payment if you are unable to make a down payment equal to 20% of the home cost. Also, depending upon your mortgage lender and insurance company, your homeowner's insurance may be added to your monthly payment and placed into an escrow account.

An **escrow account** is a holding account where funds are held by a neutral third-party and released upon agreement of both-parties involved. For example, if your property taxes are $2,400 annually, you will pay $200 each month into the escrow account. At the end of the year, the company holding the escrow will release the $2,400 to the state as your property tax payment.

You can see how advertisements quoting only the principal and interest payment can be misleading to home-buyers from **Table 9.1.** The most important step in obtaining a mortgage is borrowing from an institution you trust, such as the Credit Union.

**Table 9.1**

| Mortgage Payment Components | |
|---|---|
| Principal & Interest | $ 1,000.00 |
| Property Taxes ($3,600 / yr) | $ 300.00 |
| PMI (Private Mortgage Insurance) | $ 150.00 |
| **Total** | **$ 1,450.00** |

## *Types of Mortgages*

There are many different mortgage options available and it can easily become overwhelming when deciding which best fits your needs and financial situation. However, with a basic review of the types of mortgages available, you will gain a better understanding as to what all the different options entail.

### *Fixed Mortgages*

A **fixed mortgage** includes a designated interest rate that will not change during the life of your loan. The principal and interest payment portion of your mortgage will remain the same providing easier, long-term budgeting.

This type of mortgage offers many term options depending upon your financial situation, with the most common terms being 15 or 30 years. While this type of loan is generally the most expensive over the life of the loan, the benefits of fixed rates make this type of loan very popular, especially among first-time home buyers.

### *Adjustable-Rate Mortgages*

An **adjustable-rate mortgage**, commonly called an **ARM**, is a variable rate mortgage. The loan usually has an initial fixed-rate period, after which the rate may increase. The initial fixed-rate portion of the loan typically offers lower-interest rates than normal fixed rate mortgages. ARMs are commonly used by home buyers when interest rates appear to currently be decreasing or will be in the near future.

In appearance, this type of mortgage can seem confusing. Use **Table 9.2** to understand the basics of the terminology used to describe these types of loans.

**Table 9.2**

| ARM Terminology | |
|---|---|
| **3/1 ARM** – This type of ARM designates the first 3 years of the mortgage will include lower, fixed-rate monthly payments of principal and interest. Each year after, the rate is able to increase or decrease depending upon the current state of the economy. | **5/2 ARM** – This type of ARM designates the first 5 years of the mortgage will include lower, fixed-rate monthly payments of principal and interest. Every 2 years after, the rate is able to increase or decrease depending upon the current state of the economy. |

### *Balloon Mortgages*


**Balloon mortgages**, commonly called **interest-only loans**, are uncommon among first-time home buyers. This type of loan offers lower, fixed-rate monthly payments of *only* interest. After a designated time period, usually 5-7 years, *the entire loan balance is due in one lump sum*.

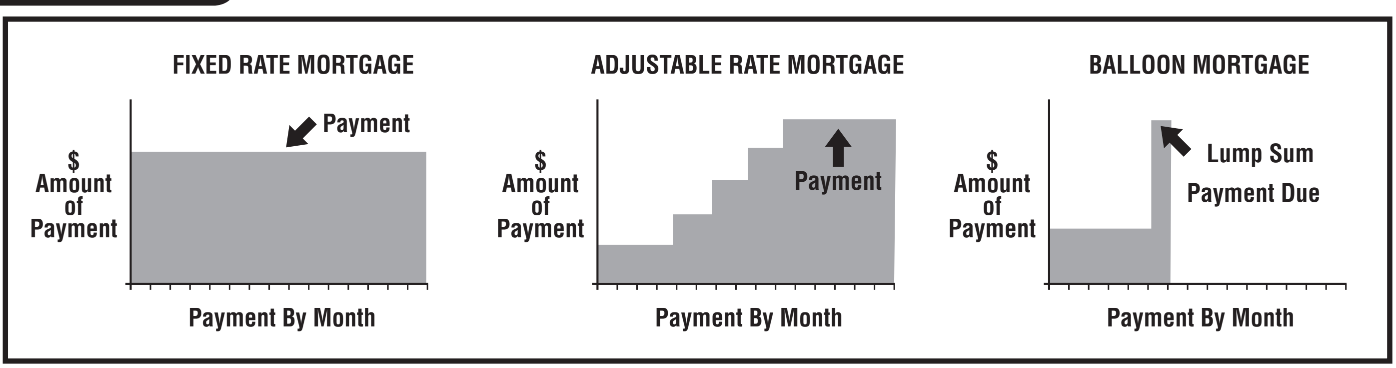
This type of loan is most commonly used for investment purposes. For example, when people flip houses they typically use this type of loan because they do not plan on owning the property for more than a few months.

With each of these types of mortgages come additional options. Understanding the basics behind these loans will work to your advantage and the Credit Union will be able to help you determine which best fits your financial situation. Review **Illustration 9.1** to gain a better understanding of how these types of mortgages function.

## *Up-Front Mortgage Costs*

The initial expenses associated with buying a home keep many from moving forward. However, it is important to remember that purchasing a home is an investment with many long-term benefits, such as building equity, eventually owning the home, and potential tax savings.

**Illustration 9.1**



### *Closing Costs*

Upon signing the sales contract, a series of events begin to take place involved in closing the home purchase. The fees associated with the persons and companies involved, taxes and insurance are combined to form **closing costs**.

Closing costs will vary depending upon the region in which you live, the companies involved, and the seller. Usually, closing costs amount to 3% to 6% of the total loan amount. For example, if you were financing a $100,000 loan, the closing costs would be roughly $3,000 to $6,000. Lenders are required to provide you a good faith estimate of closing costs, which you can use to enter into **Table 9.3.**

### *Down Payment*

The amount of your down payment is dependent upon the requirements of the lender and your financial ability. The mortgage options available vary between lenders. Some will require a 20% down payment while others may require 0%. Contact the Credit Union to review the specific requirements of mortgage loans.

If you are unable to financially afford a 20% down payment, you may want to consider a home equity loan (commonly called a second mortgage). Again, the options available vary between lenders and you should contact the Credit Union for advice on which best fits your situation. Examples of possible mortgage options including second mortgages are listed in **Table 9.4** on page 26.

**Table 9.3**

| | |
|---|---|
| **PRINCIPAL COSTS** | |
| Sale Price of Home | |
| Closing Agent Costs | |
| **Subtotal** | (A) |
| **MORTGAGE COSTS** | |
| Loan Origination Fee | |
| Loan Discount Points | |
| Appraisal Fee | |
| Credit Report Fee | |
| Prepaid Interest | |
| **Subtotal** | (B) |
| **INSURANCE PREMIUMS** | |
| Mortgage Insurance Premium | |
| First Year Homeowner's Insurance Premium | |
| **Subtotal** | (C) |
| **ESCROW ACCOUNTS** | |
| Mortgage Insurance | |
| Homeowner's Insurance | |
| Property Tax | |
| **Subtotal** | (D) |
| **GOVERNMENT COSTS** | |
| Recording Fee | |
| Transfer Tax | |
| **Subtotal** | (E) |
| **ADDITIONAL COSTS** | |
| Property Survey | |
| Home & Pest Inspection | |
| Homeowner's Association Fee | |
| Other | |
| **Subtotal** | (F) |
| **Grand Subtotal (A+B+C+D+E+F)** | (G) |
| **MORTGAGE CREDITS** | |
| Mortgage Loan Amount | |
| Seller Credits | |
| Other | |
| **Subtotal** | (H) |
| **TOTAL AMOUNT FOR CLOSING (Includes Down Payment) (G-H)** | |

**Table 9.4**

| 0% down payment: 80/20 Mortgage |
| --- |
| This mortgage option eliminates the need for a down payment. The initial 80% of the home cost is financed through a first mortgage and the remaining 20% is financed through a home equity loan. |
| **5% down payment: 80/15/5 Mortgage** |
| Here the initial 80% of the home cost is financed through a first mortgage. The remaining 20% is divided between a home equity loan (15% of home cost) and 5% down payment. |

**Important Note:**

Your down payment is due at the same time of your closing costs. Carefully budget enough to cover all closing-related expenses.

***Qualifying for a Mortgage***

When applying for a mortgage, the Credit Union will first begin by reviewing your **debt-to-income ratio**. While this ratio is dependent upon additional factors, such as the type of mortgage and your down payment, your ratio should be 28/36. This means no more than 28% of your total before-tax monthly income can be put towards housing. In addition, no more than 36% of your total monthly income can go towards your total monthly debt, which includes all outstanding loans, such as auto loans, credit cards, and your mortgage payment.

Using this ratio, the Credit Union will be able to provide you with an estimate of how much you can afford to pay monthly towards housing. However, the Credit Union does not know your current spending habits or any future plans you may have, such as starting a family or opening a new business. It is your responsibility to be realistic in planning your future monthly payments and review how the payment fits within your current budget.

**Ratio Improvement Tip:**

Prior to applying for a mortgage, pay off as much outstanding debt as possible. Lowering or eliminating credit card balances may significantly help reduce your debt-to-income ratio. Also review any loans that you may be able to pay off early.

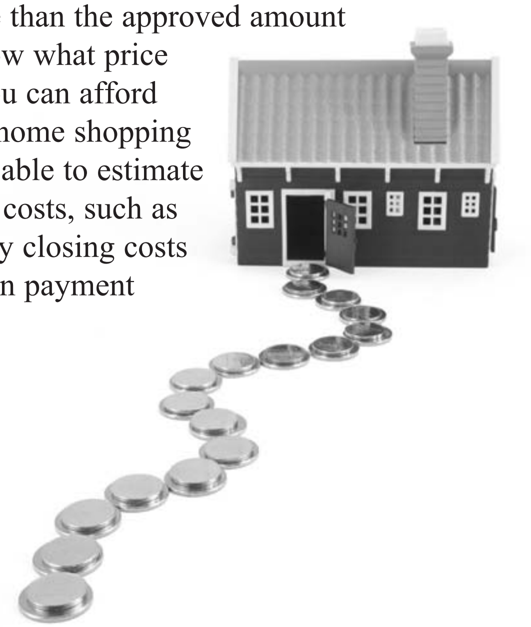
Reducing outstanding debt will also improve your debt-to-credit ratio and help increase your credit score.

***Becoming Pre-Approved***

It is important not to confuse a pre-qualification with a pre-approval. A **pre-qualification** means the lender estimated what you can afford based off the information you provided in regards to your income and outstanding debts. A **pre-approval** from the Credit Union means the loan officer pulled your credit report, completed an in-depth analysis of your financial situation and approved your mortgage loan for a designated amount.

Similar to a vehicle loan, a mortgage pre-approval provides many useful benefits:

- The seller knows you are a serious bidder and financially able to purchase the home
- Negotiations will be in your favor since the seller knows you cannot purchase the home for more than the approved amount
- You know what price range you can afford prior to home shopping
- You are able to estimate up-front costs, such as necessary closing costs and down payment



## *Life as a Homeowner*

Owning a home is an investment that requires your attention well-beyond the up front costs and monthly payments associated with your mortgage.

### *Moving Expenses*

Whether you are moving across the country or a few blocks away, moving expenses can easily begin adding up. Estimate all the costs associated with your move including:

- Moving company (if moving long distance)
- Truck rental (if moving local)
- Boxes and packing materials
- Utility hook-up fees and service deposits

### *Maintenance*

Protecting your investment requires the proper upkeep of necessary repairs and routine maintenance. Many first-time home buyers overlook expenses associated with owning a home, such as the need for a lawnmower. When reviewing your monthly budget, plan for initial repairs and continued maintenance. As a homeowner, it is your responsibility to monitor and fix problems, such as:

- Plumbing
- Electrical
- Pests and termites
- Appliance repair/replacement
- Flooring
- Windows
- Painting
- Roofing

## *Money Saving Tips*

### *Obtain a Mortgage from a Trusted Institution*

The most important aspect of your mortgage is choosing a lender that you trust. The Credit Union is a not-for-profit institution that focuses on your personal situation and needs while providing the best mortgage rates possible. Other institutions may be able to offer lower rates, but there may be misleading fees, rate changes, or other hidden costs. The ability to save minimal mortgage costs by financing with a non-reputable company may prove to cost you more than you planned to initially save. Your most important and largest investment should not be gambled with an untrustworthy lender.

### *Choose the Right Mortgage*

Discuss all the financing options available with the Credit Union and determine which mortgage best fits your financial situation and needs. Choosing the wrong type of mortgage could leave you paying more interest than necessary.

For example, if you are in the military and know you will be moving again within 3-5 years, it might be in your best interest to open an Adjustable Rate Mortgage (ARM) with a lower initial interest rate.

### *Make Extra Payments*

Reduce the cost of financing your mortgage by making additional principal payments. Some lenders will place stipulations on their loans to prevent borrowers from paying down the principal early. Check with the Credit Union to make sure no limitations are set on your mortgage.

### *Avoid PMI (Private Mortgage Insurance)*

**PMI** is insurance on the mortgage for the lender should you not be able to repay the loan. Typically, you will only have to pay PMI if you cannot make a 20% down payment on your new home. Private Mortgage Insurance is added to your monthly mortgage payment. Avoiding this fee will reduce your monthly payment amount and overall loan cost.

Owning a home provides many financial benefits, such as building equity, eventually owning your home, and possible tax advantages. There are many options and loan types available, making the need to contact and review your current situation with the Credit Union very important. Do not rush into buying a home and make sure you review all the initial and continued costs associated with home ownership.

# Putting Your Home to Work (Home Equity Loans)

As a homeowner, you will experience many financial benefits and the ability to borrow against the value of your home ranks at the top of the list. **Home Equity Loans** (commonly called Second Mortgages) provide a greater sense of financial security and allow you to accomplish tasks you may otherwise never be able to complete.

## *What is Equity?*

**Equity** is the difference between your home's current value and the amount you owe.

For example, if you currently owe $150,000 and your home is valued at $190,000, the equity would be $40,000.

Current Home Value − Outstanding Mortgage Balance = Equity

As a homeowner, you are able to use your home's value as collateral and borrow a portion or possibly all of the equity. The Credit Union may place a cap on the amount of equity you can borrow against, such as $50,000.

## *Uses of Home Equity Loans*

### *Second Mortgage*

A home equity loan can be used in addition to a first mortgage to fund your home purchase. The Credit Union may only finance 80% of your home as a first mortgage, leaving the other 20% to be paid as a down-payment or through a home equity loan.

### *Debt Consolidation*

If you have several high-interest loans or credit cards, a home equity loan can help consolidate these costly debts into a single loan with a lower interest rate.

**Illustration 10.1**

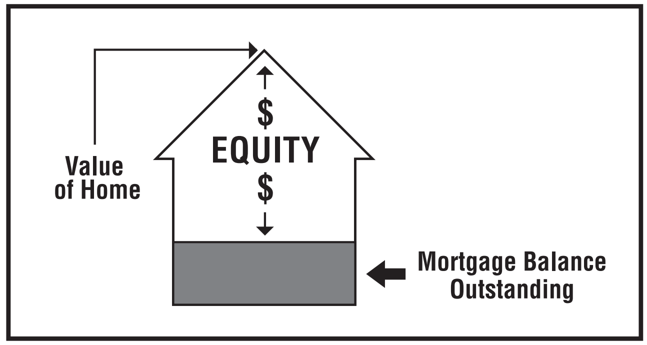



**Table 10.1**

Assume you have three credit cards that you plan to pay off in three years (36 months). The rates are fixed and you do not add any more to the current balances over the next three years.

| | Current Balance | Interest Rate | Monthly Payment |
|---|---|---|---|
| Card #1: | $ 1,000 | 18% | $36 |
| Card #2: | $ 2,500 | 20% | $93 |
| Card #3: | $ 1,500 | 15% | $52 |

| | |
|---|---|
| Total Monthly Payment: | $ 181 |
| Total Interest Paid (over 36 mos): | $1,518 |

Consolidate the outstanding $5,000 debt to a home equity loan for 36 months with an interest rate of 4%.

| | |
|---|---|
| Total Monthly Payment: | $148 (Savings of $33 per month) |
| Total Interest Paid: | $314 (Savings of $1,204) |

### *Remodeling*

Adding more value to your home with a home equity loan is a great investment. With the loan, the current value of your home is used to further increase the appraised worth of the property.

**Table 10.2**

Assume your home is valued at $190,000 and you currently owe $150,000. The equity available would be $40,000. Using half the equity, you invest $20,000 and put a swimming pool in your backyard. By doing so, your home's value increases to an estimated $225,000 over the next 5 years.

If the $20,000 home equity loan was funded over a 5-year period with a 7% interest rate, the total cost of the loan would be $23,761.48. By investing $23,761.48, you were able to increase your property value by $35,000.

**Additional Uses for Home Equity Loans:**

- Purchasing a Vehicle
- Higher Education
- Family Vacation
- Medical Bills
- Wedding Expenses

## *Types of Home Equity Loans*

There are two general types of home equity loans and each version has unique benefits.

### *Home Equity Loan*

A traditional **home equity loan** is a fixed-rate, closed-end loan. The fixed interest rate provides convenient monthly payments. Closed-end means the entire loan amount is funded at the time of closing. The borrowed money is usually either provided to you as a check or deposited directly into your account by the Credit Union. You begin repaying the borrowed amount usually the following month.

Home equity loans are useful for large, one-time expenses, such as medical bills, debt consolidation, or vehicle purchases.

### *Home Equity Line of Credit*

A **home equity line of credit** is typically a variable-rate, open-ended loan. A nice benefit of a HELOC is that you are not required to borrow the entire approved amount right away. You are able to borrow from your line of credit as you need it, possibly saving you money on the cost of the loan.

The monthly payments are based upon the current amount borrowed. The rates are typically variable, meaning they are able to change with the current state of the economy. HELOCs provide a greater sense of flexibility if being used to fund projects such as remodeling or on-going purchases such as college tuition. Home equity lines of credit have a **draw period**; a designated period of time available to withdraw the approved funds.

**Table 10.3**

| | Home Equity Loan | Home Equity Line of Credit |
|---|---|---|
| Loan Type | Closed-End | Open-End |
| Loan Rate | Fixed | Usually Variable |
| Access to Funds closing | Entire amount dispersed at as needed | Able to withdraw funds |
| Repayment Periods | Scheduled repayment period | Designated draw period & repayment begins upon initial withdrawal |
| Interest | Tax Deductible* | Tax Deductible* |

* Consult tax advisor for possible deductions

## *Benefits of Home Equity Loans*

- As a secured loan, the interest rate charged is usually lower than most personal loans.
- The interest charged on your home equity loan may be tax deductible. (*Consult your tax advisor for possible deductions*)
- Longer repayment terms provide a greater reduction in your monthly payment amount when compared to personal loans.
- The ability to consolidate high-interest debt into a single, lower-rate loan eliminates costly interest charges.

**Important Note:**

Be sure to contact the Credit Union prior to applying for a Home Equity Loan in order to determine any extra charges or closing costs related to the loan

# Why Refinance Your Loan?

**Refinancing** is the act of paying off one loan with the proceeds from a new loan while using the same property as collateral. The process basically involves switching your current loan to a new financial institution with the intent of obtaining better loan terms. Refinancing may or may not be beneficial to your current situation. By understanding the basics of this service, you will be better able to determine if this will benefit you financially.

***Loans Commonly Refinanced***

- Vehicle Loans
- Boats/Watercraft Loans
- Motorcycle Loans
- RV Loans
- Personal Loans
- 1st Mortgages
- Home Equity Loans

## *Reasons to Refinance*

While people will commonly refinance their loans when interest rates begin to decrease, there are many additional reasons to consider switching your current loan to the Credit Union.

***Decrease the Cost of Financing***

As interest rates begin to decline, you may be able to obtain a lower rate from the Credit Union and eliminate unnecessary interest expenses. In addition, if you improved your credit score since opening your original loan, you may qualify for a lower rate when switching the loan.

***Reduce Monthly Payments***

Lowering the interest rate and maintaining the same loan terms will help reduce your monthly payment. However, you are also able to obtain lower monthly payments by extending your current loan term; even if the new rate is higher. This may or may not benefit you and should only be considered if you are having financial problems. **(See Table 11.1, Scenario #2)**

***Reduce Loan Terms***

If you are able to afford larger monthly payments, it may be beneficial to decrease the term of your loan. This will help reduce the overall cost of the loan and decrease the length of time required to repay the debt. It is common for people to switch from 30 to 15 year mortgages in order to pay more into the principal of the loan and gain equity at a faster pace.

***Change the Loan Type***

If you currently have a variable rate loan and want the convenience of fixed monthly payments, refinancing allows you to redefine the loan type.

To gain a better understanding of how refinancing can benefit you, review the following example on page 31.

**Important Note:**

You do not want to extend vehicle loan terms too far when refinancing. If you do, the amount owed may become higher than the value of the vehicle. This is what financial institutions term, being upside-down on your loan.

**Table 11.1**

| **Current Loan Information:** | | **Loan Information after 20 Payments:** | |
|---|---|---|---|
| Starting Loan Amount: | $20,000 | Loan Balance: | $13,987 |
| Interest Rate: | 6.00% | Current Payment: | $386.66 |
| Loan Term: | 60 months | Interest Paid to Date: | $1,719.33 |
| Current Payment: | $386.66 | Remaining Payments: | 40 |
| Total Cost of Financing: | $3,199.35 | | |

**Scenario #1**

After 20 payments of the current loan, rates decrease and you want to lower your overall loan cost. The Credit Union approves your loan at a rate of 4.50%. In order to decrease your payments more, you extend the remaining term from 40 months to 48 months.

| **Refinanced Loan:** | |
|---|---|
| New Payment: | $318.95 |
| Total Cost of Financing New Loan: | $1,322.72 |
| Interest Paid Prior to Refinance: | $1,719.33 |
| Total Cost of Financing: | $3,042.05 |

You not only lowered the monthly payment by $67.71 per month, you also saved $157.30 on the total cost of the loan by refinancing.

**Scenario #2**

After 20 payments of the current loan, you are having trouble making your monthly payments. Rates have increased since you initially financed your vehicle, but you need lower monthly payments. The Credit Union approves your loan at a rate of 8.00%. In order to decrease your payment more, you extend the remaining term from 40 months to 48 months.

| **Refinanced Loan:** | |
|---|---|
| New Payment: | $341.46 |
| Total Cost of Financing New Loan: | $2,403.27 |
| Interest Paid Prior to Refinance: | $1,719.33 |
| Total Cost of Financing: | $4,122.60 |

You were able to lower the monthly payment by $45.20 per month, but paid an additional $923.25 of interest by extending the loan at the higher rate.

### *Refinancing Tips*

- Before you begin the application process of refinancing your current loan, visit the Credit Union and review your current situation with a loan officer. While refinancing may be beneficial at the time, it may also end up costing more than you budgeted.

- Always contact the Credit Union first to determine how the new loan will affect your overall financial situation.

- Be sure to review any fees associated with refinancing the current loan. Some lenders, such as dealerships, will put stipulations in fine print that require you to keep the loan financed with them for a certain period of time. Breaking this agreement can result in financial penalties.

# Protecting Your Identity

Protecting your identity and financial information should always be a top priority. It is unfortunate how many people fall victim to Identity Theft each day. However, you are able to take simple steps that will dramatically reduce the chances of this type of fraud.

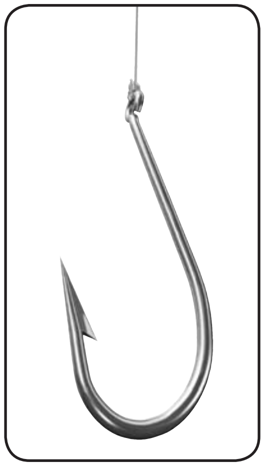
**DO:**

- Shred all credit card and loan offers you receive in the mail
- Shred all receipts (if you do not keep them for taxes or personal budgeting)
- Change your online banking password at least once a month
- Review your credit report for any unauthorized accounts each year (obtain a free copy from **www.annualcreditreport.com**)

**DO NOT:**

- Tell anyone your ATM or debit card PIN
- Let anyone borrow your credit, ATM, or debit card
- Email your account number, not even to the Credit Union
- Carry your social security card on you (store it in a safe location and carry it only when specifically needed)
- Let anyone borrow your driver's license
- Write your social security number on a check
- Provide personal information over the phone (unless you specifically called the person or company and know who you are dealing with)
- Click on links in unsolicited emails requesting personal information
- Enter personal information over the Internet unless you are on a secure server and know the company or person you are dealing with

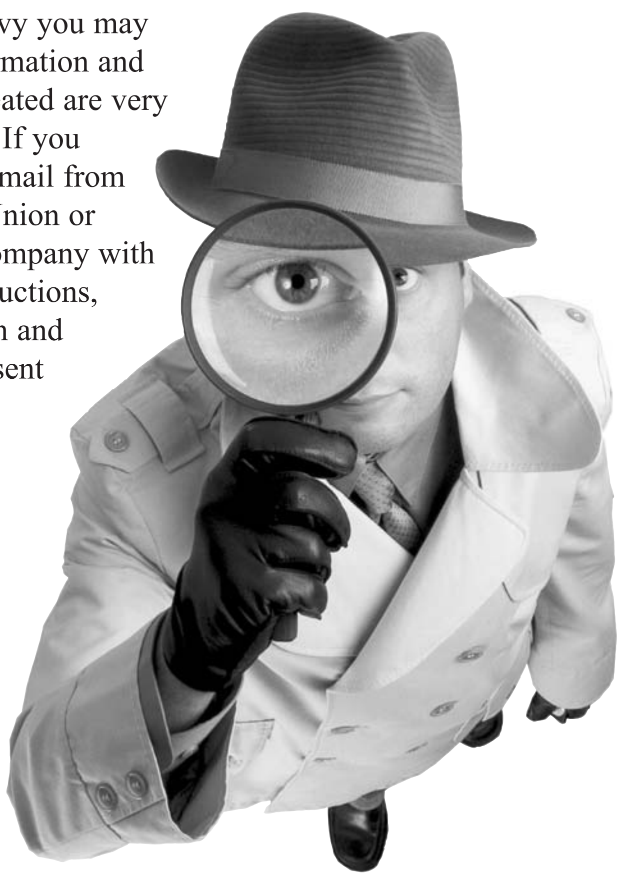
## *Online Phishing Threats*



**Phishing** refers to a type of online Identity Theft that is becoming too common. The way the scam works is you will receive an email that appears to be from the Credit Union or other trusted company. You are told there is an error of some kind on your account and are required to address the problem through the company's website.

You will be instructed to click the link on the page that will take you to the website. **Do not be fooled.** The website will usually be designed to look nearly identical to the current Credit Union's website. You are told to enter your account information to reactivate the account. When you enter your information, the phisher obtains your account number, password and any other information available through your account…including access to your money.

This type of fraud is becoming more and more common and no matter how Internet-savvy you may be, the information and websites created are very convincing. If you receive an email from the Credit Union or any other company with similar instructions, contact them and verify they sent the email.



## *Falling Victim to Identity Theft*

If you become a victim of Identity Theft, there are several steps you need to take.

**Contact any one of the three major credit bureaus to place a fraud-alert on your credit report**. This forces creditors and other financial institutions to follow certain instructions when opening or altering accounts in your name.

**Equifax:** 1-800-525-6285

**Experian:** 1-888-397-3742

**TransUnion:** 1-800-680-7289

**Contact the credit union and any other financial institution(s) to close any accounts that experienced fraud**. Ask for written documentation that the accounts were closed and any other information related to the theft. Keep this information in a safe location.

**File a police report to ensure the crime is documented**. Make sure to receive a copy of the report and keep it on file with other information pertaining to the theft.

# Notes

# Picturing Your Future Isn't Easy...

# Planning for it CAN Be!

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*Responsible Spending*

*Purchasing a Vehicle*

*Buying a Home*


*Building Your Credit Score*

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# Branch Locations

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Phone: (863) 683-6404
Toll-Free: (800) 226-6673

**Altamonte Springs Branch**
482 East Altamonte Drive, Suite 1010
Altamonte Springs, FL 32701
Phone: (407) 260-1490
Toll-Free: (800) 822-4756

**Sarasota "Isle of Service"**
3430 Clark Road
Sarasota, FL 34231
Phone: (941) 927-5220
Toll-Free: (877) 231-3428

**Pembroke Pines Branch**
219 North University Drive
Pembroke Pines, FL 33024
Phone: (954) 961-6667
Toll-Free: (800) 822-4573

**West Palm Beach Branch**
834 Southern Boulevard
West Palm Beach, FL 33405
Phone: (561) 832-2629
Toll-Free: (800) 822-4597

**Jacksonville Branch**
101 Bell Tel Way
Jacksonville, FL 32216
Phone: (904) 725-4662
Toll-Free: (800) 767-4618

**Georgia Branch**
59 South Peachtree Street
Norcross, GA 30071
Phone: (770) 613-0452
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