# FINANCIAL BASICS FOR HIGH SCHOOL GRADUATES 

## Tracking Expenses

## Managing Debt

## Credit Scores

## Savings


"I've found that nothing in life is worthwhile unless you take risks. Fall forward...Never be discouraged. Never look back. Give everything you've got. And when you fall throughout life, fall forward."

- Denzel Washington

The purpose of this class is to provide you with some very basic "adulting" skills in preparation for your next adventure.

## FINANCIAL BASICS FOR HIGH SCHOOL GRADUATES OUTLINE

1. Pay Statements
a. W-4 Employees Withholding Certificate
b. How to read a pay statement
i. Gross income versus Net
ii. Federal Insurance Contributions Act (Combined 7.65\%)
2. Social Security (6.2\%)
3. Medicare (1.45\%)
iii. Federal Income Tax (12-15\%)
iv. State Income Tax (6-7\%)
c. How to calculate gross monthly income
d. W-2 Employee's Wage and Tax Statement
e. 1099 MISC (For reporting non-employee income)
4. Tracking Expenses
a. Annual Expenses
b. Monthly Expenses
5. Spending Plan
a. Budget Percentage Recommended
6. Credit Report and Credit Scores
a. Understanding Your Credit Report
b. Types of Scores
c. Understanding Your Credit Activity and Impacts
d. Building Credit
7. Managing Debt
a. Secured versus Unsecured
b. Installments (car loans) versus Revolving (Cards)
c. Terms: Principal, Interest, fees
d. Reducing Debt
i. Avalanche
ii. Snowball
e. Student Loans

## Pay Statements

## Try It: Reading a Pay Statement - Example Pay Statement

Janice's Example Pay Statement

| SJC Corporation Earnings and Leave Statement | For Pay Period: 06/23/2019 to 07/06/2019 | Pay Date: 07/19/2019 |
| :---: | :---: | :---: |
| Name <br> Earner, Janice V. | Number of Hours 65 | Hourly Rate \$12.50 |
| Address <br> 123 Maple Street <br> Anytown, USA 12345 |  | Net Pay \$512.44 |
| Pay | Current | Year-to-Date |
| Gross Pay | \$812.50 | \$14,000.00 |
| Total Deductions | \$300.06 | \$5,170.20 |
| Net Pay | \$512.44 | \$8,829.80 |
| Deductions | Current | Year-to-Date |
| FIT: Federal Income Taxes | \$96.53 | \$1,663.20 |
| SIT: State Income Taxes | \$23.56 | \$406.00 |
| FICA SS: Social Security | \$50.38 | \$868.00 |
| FICA MED: Medicare | \$11.78 | \$203.00 |
| Health Insurance | \$81.25 | \$1,400.00 |
| 401(K) : Retirement Savings Plan | \$36.56 | \$630.00 |
| TOTAL Deductions | \$300.06 | \$5,170.20 |
| Benefits Paid By SJC | Current | Year-to-Date |
| FICA: Social Security | \$50.38 | \$868.00 |
| FICA: Medicare | \$11.78 | \$203.00 |
| Health Insurance | \$162.50 | \$2,800.00 |
| Retirement Savings Plan Matching | \$16.25 | \$280.00 |
| TOTAL Paid by SJC | \$240.91 | \$4,151.00 |



Where's all my money going? Federal Insurance Contributions Act Deductions:

- Social security (6.2\%)
- Medicare (1.45\%)

Federal Income Taxes
(12-15\%)
State income Taxes
(6-7\%)

## W-4 Employees Withholding

 Certificate: Employees fill out an Internal Revenue Service (IRS) W-4 form when first hired to inform employers how much tax to withhold from their paycheck based on filing status, dependents, anticipated tax credits, and deductions. If the form is filled out incorrectly, you may end up owing taxes when you file your return.

W-4, W-2, 1099 MISC Forms?
What the heck are those for?

Calculate Your Gross Monthly Income

## If you are paid

Weekly
Your weekly pay
(before deductions)

Twise a Month
Your twice-a-month pay
(before deductions)

Every Two Weeks
Your two weeks pay (before deductions)

If your spouce is paid
Weekly
Your spouse's weekly pay (before deductions)

Twice a Month
Your spouse's twice-a-month pay
(before deductions)

Every Two Weeks
Your spouse's two weeks pay
(before deductions)
$\$$ $\qquad$
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$\$$ $\qquad$
$x 52 \div 12=\$$ $\qquad$ $\times 2=$ $\$$
$\times 26 \div 12=\$$ $\qquad$

Other Gross Monthly Income for You or Your Spouse

Other Monthly Income
Total Gross Monthly Income
(Add monthly income from all borrowers to other monthly income)

Your "net" income is what you have leftover after all the required deductions are made in your paycheck. You can create a living budget, one that is continually adjusted to fit your needs based on your NET income.
Types of Resources: Spreadsheets apps, etc.

Apps: (free)
EveryDollar | RamseySolutions.com 360 Degrees of Financial Literacy (360financialliteracy.org)

Baseline Budget

| Baseline Budget |  |  |  |  |  |
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## Expenses

Tracking expenses helps you understand if you are using your money where you think you are and can help you uncover where you can make changes.

## Budget Percentages

| Saving | $10-15 \%$ |
| :--- | ---: |
| Housing | $25-35 \%$ |
| Utilities | $5-10 \%$ |
| Food | $5-15 \%$ |


| Transportation | $10-15 \%$ |
| :--- | ---: |
| Clothing | 28 |
| Health | $5-10 \%$ |
| Personal | $5-10 \%$ |
| Entertainment | $5-10 \%$ |
| Debt | $5-10 \%$ |



Don't forget to plan for annual expenses: insurance deductibles, car registration, hunting/fishing licenses, birthdays, holidays, etc.

## Credit How to Build Credit

Building credit is an essential part of adulthood. These tips will guide you through how to start building credit.

1. Understand the basics of credit. - Your credit report is maintained by the 3 major credit reporting bureaus: Experian, Equifax, and TransUnion. Loan and credit card companies report monthly to these bureaus the timeliness of your payments and account balances. What's contained in those reports determines your credit score.
2. Become an authorized user. - Do you have a family member who has a strong credit score and is willing to add you as an authorized user? Use caution - All activity will affect each other's score - good and/or bad.
3. Get a starter credit card. - Some lending institutions have student cards available just for this purpose.
4. Make payments ON TIME, ALL THE TIME. - Payment history is a major factor in your credit score. This includes car loans, student loans, and credit cards. etc.
5. Keep your balances low. - Keeping your credit utilization ratio below $30 \%$ will have a positive impact on your credit score. Ideally, below 10\% has the most positive impact. Above 30\% has a negative impact on your score - even if you pay it off every month!!
6. Keep tabs on your credit report. You are entitled to a FREE credit report at least annually from each bureau. www.annualcreditreport.com (official site) Report is free, however, if you want your "score", there is a small fee.
7. Consider taking out a small student loan for continuing education beyond high school. A diverse credit background increases your credit score once you start making payments on time.

FICO Score


Very Poor: $\mathbf{3 0 0 - 5 7}$
Fair: 580-669
Good: 670-739
Very Good: 740-799
Exceptional: 800-850

Vantage Score

## Additional Tips: Account history is important - Don't close old credit card accounts.

# Understanding Your 

## Credit Report

You should check your credit report once a year. Your FREE credit report can be accessed at
www.annualcreditreport.com. This is the OFFICIAL SITE to receive your report and you will never be charged a fee for the report.

Because your credit is a collection of your debt history, it can affect your loan interest rates and ability to open financial accounts. An annual review helps ensure your report is up-to-date and accurate. Also, if you're a victim of identity theft, your report might contain errors. Overall, reviewing your credit keeps you aware of your financial situation.

## Most of the information is grouped into four main categories:

Personal Information: This is self-explanatory, but this section generally includes:

- Your name and aliases

Social security number
Date of birth
Employment data
Current address
-Previous address

Public Record Information: If you have any open legal issues related to your financial situation, they'll be included in this section. These records might be:
Bankruptcies
Liens
Judgments
Wage garnishments

Creditor Information: All of your existing lines of credit are included in this section. If you've had any credit turned over to a collection agency, that'll be included, too. Among some basic information, each account section tells you:
-The status of the account: Current/open, closed, charged-off (sent to collections)
-The responsibility of the account: Joint or individual
-Your account balance
Your most recent payment
Past due information, if applicable
Your credit limit

Credit Inquiries: This section includes individuals or businesses who have pulled and reviewed your credit report. It might include a bank at which you opened an account, or a mortgage lender, if you're applying for a home loan. There are two types of inquiries.

Hard Inquiries: Made by lenders when you've applied for a loan or line of credit. If too many are made within a certain time frame, this can count against your credit score.

Soft Inquiries: Made when you check out your own credit report or when a marketing agency "pre-approves" you for a line of credit.

Dispute Any Mistakes: If you think your report contains an error, you can file a dispute. All three of the major credit reporting agencies allow you to file disputes online. You can also mail in your dispute. The Federal Trade Commission offers sample dispute letters. According to Bankrate, TransUnion and Equifax offer a mail-in dispute form, and Experian offers this on the last page of the consumer's Experian credit report.

## Activity: What Actions Affect

## Your Credit?

| Situation Alex Faced and | Likely <br> Effect <br> on Cred <br> Scores. |
| :--- | :--- |
| What He Did |  |

1. Alex's hours at work were cut back unexpectedly, so his take-home pay was reduced.

- He is late with his credit card and cell phone payments for a few months.

2. Alex wasn't able to increase his hours or find another job.

- He nearly reaches his credit limit on his only credit card.
- He is making minimum payments only.

3. Alex has a younger sister who needs to find an apartment-she is moving out on her own. Her credit needs a lot of work.

- He agrees to cosign for the apartment.
- The landlord does not pull Alex's credit report.

4. While buying groceries, Alex was asked to fill out an application for the store's credit card in exchange for $20 \%$ off the groceries.

- He applies for the credit card to get the discount.
His application is
approved.

15. Alex cosigned for his best friend's loan.

- She is now 60 days late with her payment, and Alex doesn't have any money to make the payments for her.


## Scenario: Alex Learns about Credit Scores

Alex needs a new truck. He uses it to get to and from work and school. He purchased his current truck seven years ago using cash. It was already nine years old, so he got a great deal on it.
But now it's breaking down too often.
He finds the perfect truck, but the dealer will only offer him an expensive loan. He is shocked. He learns that the reason why he was not offered better terms is
 because his credit scores are low.

Alex decides to learn a little more about credit scores before buying a new truck.
5. Alex files his taxes early and receives a tax refund.

- He uses his refund to pay down his credit card balances.

10. Alex notices he has an account in collections from a medical visit.

- He calls the medical clinic where the debt originated and asks them about it.

11. Alex was able to get more hours at his job.

- He pays his credit card bills consistently and on time.
availab uses most of the his credit cards to cover the repair.

7. Alex took a financial education class and learned about the importance of reviewing his credit reports.

- He orders his free credit reports from annualcreditreport.com.

8. After reviewing his credit reports, Alex realized he doesn't use his oldest credit card.

- He closes that credit card account.

12. Alex received a prescreened offer for a credit card in the mail.

- He does not apply for it.

13. Alex decided he can't wait any longer to get a new truck.

- He goes shopping for a loan over a three-week period. Several lenders look at his credit reports.

14. Alex just had a birthday. He hopes his credit scores will increase now that he's older.

- He's now 26 years old. but has never had a loan. He applied for a credit-building loan from his bank. His application was approved.
- He takes out the loan.

16. Alex decides to get new furniture.

- He uses his debit card to buy the furniture.

Overall, do you think Alex's credit scores have likely increased or decreased over the past year? Why?

Do you think Alex will get a good rate and terms for a loan for a new truck?
$\square$
Yes
$\square$
No

I'm not sure

Debt is an obligation that requires one party to pay money or other value to another party.
Managing Debt: Debt is money you owe; you've already borrowed it.
Credit is the ability to borrow money - but you haven't borrowed it yet.

## Debt Priorities with an Emergency Budget:

1. First pay the bills that are needed to live - housing, heat, power,
water/sewer.
(This also includes repaying family that trusted you enough to loan you money.)
2. Then, pay "secured" debt - $\mathbb{R S}$ debt, student loans, mortgage, car loans. (secured - means they can take something from you to pay the debt off) 3. Then pay "unsecured" debt - such as credit cards.

Tackling Debt - Know who and what you owe. Get the facts about your debt from your credit report and/or your monthly bills. Find out how much you owe to each creditor, what the monthly payments are and how much interest you are being charged, and any fees associated such as late fees.
Make a list of your debts in order from your lowest balance to your highest balance and add up what you owe to all creditors and what your total monthly payments are.

Online tools and apps can help you with your debt reduction plan, including www.powerpay.org and .https://www.havyfederal.org/calcs/debtpayoff2.php.

Snowball: Tackling the smallest debt amount first, while making minimum payments on all others.
Avalanche: Tackling debt with the highest interest rate first while making minimum payments on all others.

## All My Debts (Debt Avalanche Method)



| Loan | Balance | Interest Rate | Minimum <br> Payment |
| :--- | ---: | ---: | ---: |
| Loan to Mom | $\$ 750.00$ | $0.00 \%$ | $\$ 0.00$ |
| Mastercard \#1 | $\$ 3,322.58$ | $21.99 \%$ | $\$ 30.00$ |
| Visa | $\$ 6,742.07$ | $19.90 \%$ | $\$ 50.00$ |
| Mastercard \#2 | $\$ 967.11$ | $13.90 \%$ | $\$ 15.00$ |
| Personal LOC | $\$ 634.21$ | $8.00 \%$ | $\$ 50.00$ |
| Car loan | $\$ 12,111.83$ | $6.24 \%$ | $\$ 344.27$ |
| Student loan \#1 | $\$ 22,345.56$ | $5.50 \%$ | $\$ 271.39$ |
| Student loan \#2 | $\$ 14,523.23$ | $2.70 \%$ | $\$ 162.11$ |
| TOTAL | $\$ 61,396.59$ |  | $\$ 922.77$ |

# Student Loans 

## Understanding Loans:

Secured Loan: A secured loan is when a lender requires you to use a piece of property, an asset, or money as collateral to get funding. Unsecured Loan: An unsecured loan is one that doesn't require collateral or a security deposit. With an unsecured loan, instead of pledging assets, borrowers qualify based on their credit history and income.

## What are the differences between federal and private student loans?

Federal student loans are made by the government, with terms and conditions that are set by law, and include many benefits (such as fixed interest rates and income-driven repayment plans) not typically offered with private loans.

In contrast, private loans are made by private organizations such banks, credit unions, and state-based or state-affiliated organizations, and have terms and conditions that are set by the lender. Private student loans are generally more expensive than federal student loans. The chart below provides a summary of the differences.

| Subject | Federal Student Loans | Federal Parent Loans | Private Student Loans* |
| :---: | :---: | :---: | :---: |
| When payments become due | Payments aren't due until after you graduate, leave school, or change your envollument..status to less than half-time. | You (the parent) can choose to put off payments until the student you borrowed for graduates, leaves school, or changes enrollment status to less than half-time. | Many private student loans require payments while you are still in school, but some do allow you to defer (put off) payments while in school. |
| Interest rates | The interestratate is fixed and is often lower than private loans-and much lower than some credit card interest rates. View the current interest rates on federal student loans. | The interest rate is fixed and may be lower than private loans-and much lower than some credit card interest rates. View the current interest rates on federal student and parent loans. | Private student loans can have variable or fixed interest rates, which may be higher or lower than the rates on federal loans depending on your circumstances. |
| Subsidies | If you have financial. need, you may qualify for a J.oan for which the government pays the interest while you're in school on at least a half-time basis and during certain other periods. This type of loan is called a "subsidized...oan | These loans are not subsidized; therefore, you will be responsible for all the interest on your loans. | Private student loans are often not subsidized. In the case of an unsubsidized loan, you will be responsible for all the interest on your loan. |
| Credit check | You don't need to get a credit check to qualify for federal student loans (except for PLUS loans). For PLUS loans, we will check your credit before determining whether you are eligible. Learn how someone with an adverse credit history. may_qualify for a PLUS Ioan. | We will check your credit before determining whether you are eligible. Learn how someone with an adverse credit history may qualify for a PLUS loan. | Private student loans often require an established credit record or a cosigner. |
| Tax benefits | Interest may be tax deductible. | Interest may be tax deductible. | Interest may be tax deductible. |
| Consolidation <br> and refinancing | Loans can be consolidated into a Direct. Consolidation._oan Learn about your consolidation options. | Loans can be consolidated into a Direct Consolidation Loan. Learn about your consolidation options. | Private student loans cannot be consolidated into a Direct Consolidation Loan but may be refinanced. |
| Postponement options | If you are having trouble repaying your loan, you may be able to temporarily_postpone or lower your payments. | If you are having trouble repaying your loan, you may be able to temporarily. postpone or lower your payments. | You should check with your lender to find out about options for postponing or lowering your loan payments. |
| Repayment plans | There are several repayment plans, including an option to tie your monthly_payment to your income. | There are several repayment plans, including an option to tie your monthly. payment to your income. | You should check with your lender to find out about your repayment options. |
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| Prepayment penalties | There is no prepayment penalty fee. | There is no prepayment penalty fee. | You need to make sure there are no prepayment penalty fees. |
| Loan forgixeness | You may be eligible to have some portion of your loans forgiven if you work in public service. Learn about our loan forgiveness programs. | You may be eligible to have some portion of your loans forgiven if you work in public service. Learn about our loan forgiveness programs. | Although many private lenders do not offer loan forgiveness programs, some student loans from state agencies can be |

# When it comes to paying for college, career school, or graduate school, federal student loans can offer several advantages over private student loans. 

Need a loan to help pay for college? Consider federal loans first!

If you apply for financial aid, your school will likely include student loans as part of your financial aid package. It’s important to understand what types of loans you are offered. Generally, there are two types of student loans-federal and private.

- Federal student loans and federal parent loans: These loans are funded by the federal government.
- Private student loans: These loans are nonfederal loans, made by a lender such as a bank, credit union, state agency, or a school


## If you need to borrow money to pay for college or career school, start with federal loans.

Federal student loans are

- Direct Subsidized Loans and Direct Unsubsidized Loans and
- Direct PLUS Loans (for graduate and professional students)

Federal parent loans are

- Direct PLUS Loans (for parents). Parents are fully responsible for paying these loans, even though they are taken out to benefit students.


## What are the differences between federal and private student loans?

Federal student loans are made by the government, with terms and conditions that are set by law, and include many benefits (such as fixed interest rates and income-driven repayment plans) not typically offered with private loans.

In contrast, private loans are made by private organizations such banks, credit unions, and state-based or state-affiliated organizations, and have terms and conditions that are set by the lender. Private student loans are generally more expensive than federal student loans.

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| Interest rates | The interest rate is fixed and is often lower than private loans-and much lower than some credit card interest rates. View the current interest rates on federal student loans. | The interest rate is fixed and may be lower than private loans-and much lower than some credit card interest rates. View the current interest rates on federal student and parent loans. | Private student loans can have variable or fixed interest rates, which may be higher or lower than the rates on federal loans depending on your circumstances. |
| Subsidies | If you have financija! need, you may qualify for a !opan for which the government pays the interest while you're in school on at least a half-time basis and during certain other periods. This type of loan is called a "subssididized Joan ." | These loans are not subsidized; therefore, you will be responsible for all the interest on your loans. | Private student loans are often not subsidized. In the case of an unsubsidized loan, you will be responsible for all the interest on your loan. |


| Credit check | You don't need to get a credit check to qualify for federal student loans (except for PLUS loans). For PLUS loans, we will check your credit before determining whether you are eligible. Learn how someone with an adverse credit history. may qualify for a PLUS loan. | We will check your credit before determining whether you are eligible. Learn how someone with an adverse credit history may qualify for a PLUS loan. | Private student loans often require an established credit record or a cosigner. |
| :---: | :---: | :---: | :---: |
| Tax benefits | Interest may be tax deductible. | Interest may be tax deductible. | Interest may be tax deductible. |
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| Repayment plans | There are several repayment plans, including an option to tie your monthly payment to your income. | There are several repayment plans, including an option to tie your monthly payment to your income. | You should check with your lender to find out about your repayment options. |
| Prepayment penalties | There is no prepayment penalty fee. | There is no prepayment penalty fee. | You need to make sure there are no prepayment penalty fees. |
| Loan <br> forgiveness | You may be eligible to have some portion of your loans forgiven if you work in public service. Learn about our loan forgiveness programs. | You may be eligible to have some portion of your loans forgiven if you work in public service. Learn about our loan forgiveness programs. | Although many private lenders do not offer loan forgiveness programs, some student loans from state agencies can be forgiven in certain circumstances. |
| Where to get help | Contact your loan servicer first. If you have difficulty with your !oann servicer, send us feedback. | Contact your loan servicer first. If you have difficulty with your loan servicer, send us feedback. | Contact your loan servicer first. If you have difficulty with your loan servicer, contact the Consumer Financial Protection Bureau for assistance $\widetilde{\square}$ |

*Private loans differ by lender and by type of loan. Be sure you understand the terms of your loan, and keep in touch with your lender about any questions you may have.

## How do I get a federal student loan?

To get a federal loan, you must first complete the Free Application for Federal Student Aid (FAFSA ${ }^{\circledR}$ ) form. Learn more about applying for aid.

## Additional Links

Avoiding Student Aid Scams
Federal Interest Rates and Fees
Types of Financial Aid
Filling Out the FAFSA® Form

## Choosing a loan that's right for you

## We're here to help you navigate the noise

## ACTION GUIDE

## (1) Fill out the FAFSA

You must complete this form to be eligible for any federal student loans or grants. Submit the FAFSA as early as possible. Go to fafsa.ed.gov/deadlines.htm to see the deadlines.

## THINGS TO TRY

- Fill out the FAFSA even if you're not sure you'll get the federal aid schools often use it to award scholarships and other grant aid.

How often do student loan rates change?

Once you agree to a federal student loan, your interest rate remains the same until you have paid it off. Interest rates on private student loans are set by the lender and depend on the lender's evaluation of your creditworthiness.

## (2) Explore all your federal loan options first

If you need to borrow to pay for school, federal student loans almost always cost less than private student loans and have more protections when it's time for repayment.

THINGS TO TRY

- If you are choosing between schools, compare each school's aid offer.

What's the difference between subsidized and unsubsidized student loans?

The government pays the interest on subsidized loans while you are in school. You pay the interest on unsubsidized loans. Subsidized loans are awarded to students based on financial need.

## 3 Shop around if your aid package doesn't cover the full cost of college

Talk to your school's financial aid office about alternative scholarships or loan options.

## THINGS TO TRY

- Make sure you have exhausted all other options - additional scholarships, cutting costs, a part-time job - before taking out a private loan.
- Shop for lower interest rates and loans that offer flexibility if you have trouble making payments. Remember that whatever the advertised interest rate is, yours could be much higher depending on your creditworthiness.

Should I use a credit card to cover my education costs?

Don't replace student loan debt with credit card debt - it can be a much more expensive way to finance your education. Credit cards do not provide the flexible repayment terms or borrower protections offered by federal student loans.

## FINANCIAL BASICS FOR HIGH SCHOOL GRADUATES instructor guide

## Introductions:

- Please silent cell phones
- Break (halfway through)
- Emergency Exits
- Restrooms, etc.


Slide 1: Introduction

Class is a "Brief summary" of an Introduction to Adulting Financial Basics, for more indepth or personalized information - Financial Skill Building Class (Homeword) or personal Financial Counseling (Kaitlyn Gilmor)


Slide 2: Agenda

## 1. Pay Statements

a. W-4 Employees Withholding Certificate:
Employees fill out an Internal Revenue Service (IRS) W-4 form when first hired to inform employers how much tax to withhold from their paycheck based on filing status, dependents, anticipated


Slide 3: Pay Statements
tax credits, and deductions. If the form is filled out incorrectly, you may end up owing taxes when you file your return.
b. How to read a pay statement: Pay Statements will vary in name and format, but typically have the following information:
i. Personal Information - name, address, etc.
ii. Pay Period - the time you are being paid for.
iii. Pay Date - The day you are scheduled to receive the "net" pay.
iv. Gross Pay - How much you earned for the pay period. May also include the year-to-date gross earnings.
v. Deductions - Required deductions: Federal and state taxes, Social Security and Medicare and elective deductions such as medical insurance, retirement plans, etc.

Federal Insurance Contributions Act (FICA Combined 7.65\%)
a. Social Security, sometimes referred to as OASDI (6.2\%)
(OASDI - Old Age Survivors Disability Insurance)
b. Medicare (1.45\%)

- Federal Income Tax (12-15\%)
- State Income Tax (6-7\%)
vi. Net Pay - Amount of money you receive after deductions, also called take-home pay.
vii. Employer Contributions - The amount your employer paid for benefits such as health insurance and retirement plans.
viii. Elective Contributions - Money you decide to deduct from your pay such as savings, union dues, etc.
ix. Balances of Personal Time Off, Vacation and Sick.

Pay Statements vary in frequency. They can be weekly, twice a month ( $1^{\text {st }}$ and $15^{\text {th }}$ of every month), every two weeks/bi-weekly, or once a month.
c. Gross monthly income and how to calculate: How much you've earned averaged out per month for the year. How to calculate: If Paid Weekly: Weekly Gross Pay X 52 divided by $12=$ Monthly Gross Income.
If Paid Twice a Month: Gross Pay X 2 = Monthly Gross Income.
If Paid Bi-Weekly: Gross Pay X 26 divided by $12=$ Monthly Gross Income.
If Paid Monthly = Monthly Pay is your Gross Monthly Income.
d. W-2 Employee's Wage and Tax Statement: Your employer considers you an employee and is taking the required deductions from your paycheck. This statement is used to report your wages to the IRS when filing your taxes annually.
e. 1099 MISC (For reporting non-employee's income): You are considered a contract employee and these earnings are what is being reported to the IRS. Deductions may or may not have been made on your behalf but will still be owed.

## 2. Tracking Expenses:

Tracking expenses helps you understand if you are using your money where you think you are and can help you uncover where you can make changes.
(HANDOUT: PROVIDE EXPENSE TRACKING SPREADSHEET)


Slide 4:Tracking Expenses
a. Monthly Expenses - Planning for recurring expenses such as utility bills, loan payments, groceries, minimum credit card payments, etc.
b. Annual Expenses - Medical insurance deductions, car registrations, school tuition and books, hunting/fishing licenses, tax preparation and payments, etc. These expenses are often overlooked until they are due and often get added to credit card debt. Total annual expenses should be identified and averaged out per month. Establish a separate savings account to prepare for these.
3. Spending Plan and/or Living Budget
a. Budget Percentages

Recommended

| Budget Percentages |  |
| :--- | ---: |
| Giving | $10-15 \%$ |
| Saving | $10-15 \%$ |
| Housing | $25-35 \%$ |
| Utilities | $5-10 \%$ |
| Food | $5-15 \%$ |
| Transportation | $10-15 \%$ |
| Clothing 28 | $2-7 \%$ |
| Health | $5-10 \%$ |
| Personal | $5-10 \%$ |
| Entertainment | $5-10 \%$ |
| Debt | $5-10 \%$ |



Slide 5:Spending Plan


Slide 6:Why Budget?

## 4. Credit Report and Credit Scores

## a. Building Credit: Understanding Your Credit Report: Experts recommend checking your credit report once a year. Your FREE credit report can be accessed at



Slide 7: Credit
www.annualcreditreport.com. Because your credit is a collection of

1. Understand the basics of credit. - Your credit report is maintained by the 3 major credit reporting bureaus: Experian. Equifax, and TransUnion. Loan and credit card companies report monthly to these bureaus the timeliness of your payments and account balances. What's contained in those reports determines your credit score.
2.Become an authorized user. - Do you have a family member who has a strong credit score and is willing to add you as an authorized user? Use caution - All activity will affect each other's score - good and/or bad.
2. Get a starter credit card. - Some lending institutions have student cards available just for this purpose.
3. Make payments ON TIME, ALL THE TIME - Payment history is a major factor in your credit score. This includes car loans, student loans, and credit cards. etc.
4. Keep your balances low. - Keeping your credit utilization ratio below $30 \%$ will have a positive impact on your credit score Ideally, below 10\% has the most positive impact. Above 30\% has a negative impact on your score - even if you pay it off every monthll
5. Keep tabs on your credit report. You are entitled to a FREE credit report at least annually from each bureau. www.annualcreditreport.com (official site) Report is free, however, if you want your "score", there is a small fee
6. Consider taking out a small student loan for continuing education beyond high school. A diverse credit background increases your credit score once you start making payments on time.
your debt history, it can affect your loan interest rates and ability to open financial accounts. An annual review helps ensure your report is up-todate and accurate. Also, if you're a victim of identity theft, your report might contain


Slide 8:Credit Bureaus
errors. Overall, reviewing your credit keeps you aware of your financial situation.

Most of the information is grouped into four main categories: personal information, public record information, creditor information and credit inquiries.

Personal Information: This is self-explanatory, but this section generally includes:

- Your name and aliases
- Social security number
- Date of birth
- Employment data
- Current address
- Previous address

Public Record Information: If you have any open legal issues related to your financial situation, they'll be included in this section. These records might be:

- Bankruptcies
- Liens
- Judgments
- Wage garnishments You may also see an estimated date of removal for each item on TransUnion Reports.

Creditor Information: All of your existing lines of credit are included in this section. If you've had any credit turned over to a collection agency, that'll be included, too. Among some basic information, each account section tells you:

- The status of the account: Current/open, closed, charged-off (sent to collections)
- The responsibility of the account: Joint or individual
- Your account balance
- Your most recent payment
- Past due information, if applicable
- Your credit limit

Generally, your adverse accounts and good accounts will be split: Adverse accounts, potentially negative items. These are the accounts that hurt your credit. If you have an account in this section, you might have made late payments, the balance might be outstanding, or the account may have been sent to a collection agency.

The site explains that all three credit bureaus (Experian, TransUnion, and Equifax) allow you to dispute any of the accounts in this section. If the accounts are indeed adverse, they'll be removed from your report after seven years. Again, if you're looking at a TransUnion report, the date of removal is included.

Accounts in good standing, satisfactory accounts: These accounts have been paid in full and on time.

## Terms to know -

Charge-off, Payment after charge-off: If the status of your account is "charged-off," this essentially means the creditor has given up on you, charging the amount off as a loss. Usually, they've sent your debt to collections. If you made a payment after a charge-off, it won't be removed from your account.
Revolving account: If your account type is revolving, it's likely a credit card. These are accounts that you don't have to pay in full every month. You have the option to revolve your credit and pay interest on the amount you revolve.
Installment account: Usually loans. These are accounts with fixed payments over a fixed time period.
Open account: These are less common to see on your credit report. They're accounts that require you to pay the balance in full each month. A utilities company, for example.

Collection account: If an account has been transferred to a third-party collection agency, that credit shows up as a collection account, even if you've settled the amount.

Credit Inquiries: This section includes individuals or businesses who have pulled and reviewed your credit report. It might include a bank at which you opened an account, or a mortgage lender, if you're applying for a home loan. There are two types of inquiries.

Hard Inquiries: Made by lenders when you've applied for a loan or line of credit. If too many are made within a certain time frame, this can count against your credit score.

Soft Inquiries: Made when you check out your own credit report or when a marketing agency "pre-approves" you for a line of credit.

## Learn The Codes

Here are some different status codes you might see, and what they mean:
CURR ACCT: Account is current, in good standing
CUR WAS 30-2: Account is current but was 30 days late twice
PAID: Account balance paid off, inactive
CHARGOFF: Unpaid balance charged off, credit grantor no longer seeking balance (likely has been sent to collections)
COLLECT: Account is seriously past due and has been sent to collections
FORECLOS: Property was foreclosed
BKLIQREQ: Debt forgiven via Chapter 7, 11 or 13
DELINQ 60: Account 60 days past due
Dispute Any Mistakes: If you think your report contains an error, you can file a dispute. All three of the major credit reporting agencies allow you to file disputes online. You can also mail in your dispute. The Federal Trade Commission offers sample dispute letters. According to Bankrate, TransUnion and Equifax offer a mail-in dispute form, and Experian offers this on the last page of the consumer's Experian credit report.

How does FICO determine your credit score?


$$
\begin{array}{ll}
35 \% & \text { Payment History } \\
30 \% & \text { Amounts Owed } \\
15 \% & \text { Length of Credit History } \\
10 \% & \text { New Credit } \\
10 \% & \text { Credit Mix }
\end{array}
$$

b. Types of Scores and


Slide 9: Credit Score Factors

How They are
Calculated:
Your FICO credit score is based on five categories -
Payment history (35\%): Payment history reflects whether you've paid past accounts on time. So, if you're good about making payments on time, your credit score will increase. An overall good credit picture can outweigh one or two instances of late credit card payments.

## Amounts owed

 (30\%): Lenders what to know how much you owe. If you're close to reaching your credit limit for an account, ("maxing out"), this may negatively affect your credit score. Keeping your

Slide 10: Credit Utilization balances less than
$10 \%$ of available credit has the most positive impact on your credit score. Balances greater than $30 \%$ start to have a negative impact.
This applies even if you pay off entire balance monthly!
Length of credit history (15\%): A longer credit history will increase your FICO score. FICO also takes into account how long you've been actively using those accounts.
Types of credit (10\%): Your score considers your mix of credit cards, installment loans, retail accounts, mortgage loans and finance company accounts. It also looks at the number of accounts you have open.

New credit (10\%): Inquiries into new lines of credit can lower your score.

## c. Understanding Your Credit Activity and Impacts

## (ACTIVITY: What makes your credit score go up or down?)

Try It: What Makes Credit Scores Go Up and Down? Answer Key

| Situation Alex Faced and |
| :--- | :---: | :--- |
| What He Did |$\quad$| Likely Effect |
| :--- |
| on Credit |
| Scores |$\quad$| How it Relates to Composition of |
| :--- |
| FICO® Scores |


| Situation Alex Faced and What He Did | Likely Effect on Credit Scores | How it Relates to Composition of FICO® Scores |
| :---: | :---: | :---: |
| 2. Alex wasn't able to increase his hours or find another job. <br> - He nearly reaches his credit limit on his only credit card. <br> - He is making minimum payments only. |  | - Alex is making minimum payments on time. That is good. Unfortunately, his credit scores are still likely to drop. <br> - This situation affects the credit utilization rate-the percentage of available credit used at any time during the month (even if you pay the balance in full by the due date). <br> - Carrying high balances on credit cards compared to available credit limits can significantly reduce credit scores. Some experts advise using no more than $30 \%$ of your available credit while others advise using no more than $20 \%$. While keeping balances at or below those percentages may be a goal that you cannot reach right now, it helps to use as little of your credit limit as possible. <br> - Your credit utilization rate in combination with outstanding debt accounts for $30 \%$ of FICO ${ }^{\circledR}$ scores. <br> - Write 30\%-Amounts Owed |
| 3. Alex has a younger sister who needs to find an apartmentshe is moving out on her own. Her credit needs a lot of work. <br> - He agrees to cosign for the apartment. <br> - The landlord does not pull Alex's credit report. | $\begin{gathered} \mathbf{=} \\ \text { NO } \\ \text { CHANGE } \end{gathered}$ | - Cosigning for an apartment does not significantly affect your credit (the landlord may pull your credit history which counts as an inquiry on your credit report). In this case, Alex's credit report was not pulled, so there was no change. <br> - If, however, Alex's sister fails to pay her rent and Alex does not pay it, then Alex's credit could be negatively affected. |


| Situation Alex Faced and What He Did | Likely Effect on Credit Scores | How it Relates to Composition of FICO® Scores |
| :---: | :---: | :---: |
| 4. While buying groceries, Alex was asked to fill out an application for the store's credit card in exchange for $20 \%$ off the groceries. <br> - He applies for the credit card to get the discount. His application is approved. | Down, but only slightly | - Alex has generated a new inquiry. <br> - This is when someone looks at your credit in response to a credit application you have submitted. <br> - If you apply for credit or you give someone permission to access your credit as part of an application process, the inquiry may cause your score to drop a few points. <br> - Too many inquiries can indicate that someone could be or is about to be in trouble with credit by accumulating too much debt. <br> - With the $\mathrm{FICO} ®$ model, this inquiry affects the score for only 12 months. However, when a potential employer checks your credit as part of its screening process, your credit scores are not affected. <br> - Write 10\%-New Credit |
| 5. Alex files his taxes early and receives a tax refund. <br> - He uses his refund to pay down his credit card balances. | Up | - While the amount he paid is unknown, any payment made to reduce a credit card balance is good. <br> - Positive behavior will not instantly increase scores, but can set your score on a course that will gradually trend upward. <br> - Missing payments, using too much credit, and generating inquiries can cause instant decreases in scores. Increasing scores takes longer. |


| Situation Alex Faced and What He Did | Likely Effect on Credit Scores | How it Relates to Composition of FICO® Scores |
| :---: | :---: | :---: |
| 6. Alex's truck breaks down. He has to have the truck running for his job. He has no emergency savings. <br> - He again uses most of the available credit on one of his credit cards to cover the repair. |  | - Same explanation as \#2. <br> - This is an example of when it would be good to have some emergency savings. |
| 7. Alex took a financial education class and learned about the importance of reviewing his credit reports. <br> - He orders his free credit reports from annualcreditreport. com. | $\begin{gathered} \boldsymbol{\prime} \\ \text { NO } \\ \text { CHANGE } \end{gathered}$ | - This is a right given to you by the Fair Credit Reporting Act. <br> - Reviewing your own credit reports does not affect your credit scores. |
| 8. After reviewing his credit reports, Alex realized he doesn't use his oldest credit card. <br> - He closes that credit card account. | Down | - By closing his oldest account, he is shortening the length of his credit history. <br> - Write 15\%-Length of Credit History |
| Situation Alex Faced and What He Did | Likely Effect on Credit Scores | How it Relates to Composition of FICO® Scores |
| 9. Alex has one credit card, but has never had a loan. He applied for a credit-building loan from his bank. His application was approved. <br> - He takes out the loan. | $\underset{U p}{\text { Ap }}$ | - The FICO® models reward a diversity of credit. <br> - The models want to see you can manage both revolving credit (such as credit cards) and installment credit (for example, a credit building loan, automobile loan, student loan, or mortgage). <br> - Write 10\%-Credit Mix |
| 10. Alex notices he has an account in collections from a medical visit. <br> - He calls the medical clinic where the debt originated and asks them about it. | $\begin{gathered} = \\ \text { NO } \\ \text { CHANGE } \end{gathered}$ | - Asking about an account or other information in your credit report has no effect on credit scores. |
| 11. Alex was able to get more hours at his job. <br> - He pays his credit card bills consistently and on time. | $\begin{aligned} & \text { T } \\ & \text { Up } \end{aligned}$ | - Paying consistently and on time has a positive effect on your credit score but not right away. <br> - Think of it instead as setting your score on a course that will gradually trend upward. <br> - This affects his Payment History. |
| 12. Alex received a prescreened offer for a credit card in the mail. <br> - He does not apply for it. | $\begin{gathered} = \\ \text { NO } \\ \text { CHANGE } \end{gathered}$ | Inquiries made by a company to decide if they will send you prescreened offers of credit do not affect your credit scores. <br> - His credit score would be affected only if Alex had accepted the prescreened offer. |


| Situation Alex Faced and What He Did | Likely Effect on Credit Scores | How it Relates to Composition of FICO® Scores |
| :---: | :---: | :---: |
| 13. Alex decided he can't wait any longer to get a new truck. <br> - He goes shopping for a loan over a three-week period. Several lenders look at his credit reports. | $\begin{gathered} = \\ \text { NO } \\ \text { CHANGE } \end{gathered}$ | - Shopping for an auto loan, mortgage, student loan, or other loan may cause multiple lenders to request your credit report, even though you are only looking for one loan. <br> - The FICO® credit score model ignores all of those inquiries made during the 30 days or 45 days before they calculate your credit score (depending on the FICO® score model). <br> - After that, multiple inquiries relating to these kinds of applications are treated as one inquiry. <br> - This means shopping around for the best deal on a loan over a three-week period does not hurt Alex's credit scores. |
| 14. Alex just had a birthday. He hopes his credit scores will increase now that he's older. <br> - He's now 26 years old. | $\begin{gathered} = \\ \text { NO } \\ \text { CHANGE } \end{gathered}$ | - Sorry, Alex. Age has no effect on credit scores. <br> - Alex's birthday did not change his credit score. |
| 15. Alex cosigned for his best friend's loan. <br> - She is now 60 days late with her payment, and Alex doesn't have any money to make the payments for her. | Down | - When you co-sign a loan, you are responsible for it. <br> - If the person you co-sign for does not make payments and you don't make them, your credit score drops. <br> - This affects his Payment History. |
| 16. Alex decides to get new furniture. <br> - He uses his debit card to buy the furniture. | $\begin{gathered} \text { = } \\ \text { NO } \\ \text { CHANGE } \end{gathered}$ | - Using a debit card for purchases, such as furniture, does not affect your credit score, either positively or negatively. <br> - Using a debit card in that manner does not involve credit. |

## ASK

- Overall, do you think Alex's credit scores have likely increased or decreased over the past year? Why?
- Overall, they have likely decreased. The late payments and high credit utilization rate have greater effects on credit scores than the other factors.
- Do you think Alex will get a good rate and terms for a loan for a new truck?
- No, not now. He needs to work on his credit if he wants to get a good rate and favorable terms.


5. Managing Debt: Debt is money you owe; you've already borrowed it. (Credit is the ability to borrow money - but you haven't borrowed it yet)

## IMPORTANT DEBT TERMS

Principal: Is the initial amount of money that is borrowed on


Slide 12:Managing Debt a loan.
Interest: The interest rate is the amount charged on top of the principal by a lender to a borrower for the use of the money borrowed.
Compound Interest: Compound interest is the interest you earn on interest. This can be illustrated by using basic math: if you have \$100 and it earns $5 \%$ interest each year, you'll have $\$ 105$ at the end of the first year. At the end of the second year, you'll have $\$ 110.25$. Not only did you earn $\$ 5$ on the initial $\$ 100$ deposit, but you've also earned $\$ 0.25$ on the $\$ 5$ in interest.

Know who and what you owe. Get the facts about your debt from your credit report and/or your monthly bills. Find out how much you owe to each creditor, what the monthly payments are and how much interest you are being charged and any fees associated such as late fees.

Make a list of your debts in order from your lowest balance to your highest balance and add up what you owe to all creditors and what your total monthly payments are.

Learn how much minimum payments are costing you using a calculator such as: https://www.navyfederal.org/calcs/debtpayoff2.php.

- Reflect (but don't dwell) on what got you here. Assess the purchases that put you in a credit crunch. Were they essentials, like utilities or medical bills, or "wants"?

Review your statements for choices you could try to avoid in the future.

- Take a hard look at your spending plan. Before you can dig yourself out of debt, you need to know where you stand financially. Figure out how much money you could allocate from your spending plan
to your plan to pay off debt. Find new ways to free up cash or bring more in. The more money you free up, the more money you have for repaying your debts.
- Make a personalized plan to pay off or down as many debts as you can. The trick to digging out of debt is to pay more than the minimum payment on at least one of your debt payments and then continue to roll payments from debts that you pay off into subsequent payments. This is also called power paying. There are two primary debt reduction methods:

Snowball: Paying off debts from lowest balance to highest balance (for quick win)
Avalanche: Paying off debts from highest rate to lowest rate (for most savings)
In both cases, you pay the minimum each month on all deb $\dagger$ except the first on the list. For the first debt on the list, you pay minimum plus the amount you can allocate from you budget (e.g., $\$ 50)$. Either way, you get out of debt faster and save money on interest. After you pay off the first bill, you add what you were paying on the first bill to the payment for the next one you want to pay off. Keep going like that until all of your debts are paid off.

Online tools and apps can help you with your debt reduction plan, including www.powerpay.org.

Decide which debts to prioritize. In addition to considering whether to pay off your lowest balance or debt with the highest rate first, you need to think about the types of debt you have. Do you have credit cards and/or loans? What kinds of loans do you have? The compound interest charged on credit cards can cause balances to grow over time; thus, it usually makes sense for you to prioritize credit card debt over other kinds of debt.

Most financial experts recommend you start by paying off the debt with the lowest balance first to have an early win. That success will trigger a positive emotional reaction and motivate you to continue to pay off your entire debt over time.

- Look for boosts. Use any unexpected money (e.g., bonus, yard sale) to help you pay off the main debt you're focused on. If possible, refinance or ask for lower rates on your credit lines to lower your interest charges. Don't be afraid to call your creditors to try to negotiate.
- Make it easy for yourself. Automate to pay your debts in full and on time for less work. Be sure to reset your payment amounts when you move on to the next debt in your debt reduction plan.
- Before considering debt consolidation, talk to your financial counselor or coach. Debt consolidation can have advantages (one payment) and disadvantages (lower credit score). It depends on the situation. Find out about the impact of this action on your debt repayment plan and credit score by talking to your financial counselor or coach.
- Or, you can use a credit score simulator, a tool that's available when you order your credit report and score from myfico.com or any of the three major credit reporting agencies. The simulator evaluates the impact on your credit score of debt consolidation and other options.
- Visualize success. Focus on the prize of being debt-free. Write down or draw your debt reduction goal and post it in prominent places to keep you motivated throughout the process. Reducing debt is a long journey that requires discipline.
- Avoid temptation. Figure out ways to curb your credit card usage. Could you hide or eliminate cards? (Bear in mind that it's generally a sound financial strategy to keep a credit card or two on hand in case of emergencies.)
- Keep going. After your debt is paid off, continue to make payments to yourself to fund your savings, investment and retirement goals.
- Get support and help when needed. The National Federation for Credit Counselors can connect you with a certified credit counselor at www.nfcc.org or 800-388-2227 to guide you through your repayment options. You could also find a debt reduction buddy for mutual accountability and encouragement on your path to becoming free from debt. The right support system will help you accomplish your goals much faster.
a. Secured versus Unsecured

Secured Loan: A secured loan is when a lender requires you to use a piece of property, an asset, or money as collateral to get funding. Unsecured Loan: An unsecured loan is one that doesn't require collateral or a security deposit. With an unsecured loan, instead of pledging assets, borrowers qualify based on their credit history and income.

# Unsecured and Secured Loan 


b. Installments (car loans - set payments) versus Revolving (Cards varied amounts based on spending)
c. Student Loans


Slide 13: What's Next?

