

Financial Futures

Presented by:

Mrs. Marsha Davis, VP Centennial Bank &

Financial Futures

- Credit and Debt Management topics
 - Debt Overview
 - Good Debt vs. Bad Debt
 - Credit Report
 - Credit Score
 - Debt payoff strategies
 - Living Debt Free – Spending Plan
 - Q & A

Overview

*“The rich rule over the poor, and the **borrower** is slave to the **lender**” Psalms 22:7*

- Average American household owes \$7,274 in credit card debt
- Arkansas ranked 3rd worst in financial literacy
- AR tied 2nd worst in only making minimum payment on credit cards
- Fewer than half (37%) of Arkansans reported spending less than their income vs. national average of 41%
- Over a third (34%) reported having medical bills past due vs 26% nationally
- More than half of Arkansans (58%) do not have rainy day savings to cover three months of expenses
- Over 40% of Arkansans (41%) reported paying only the minimum credit card payment during the last year

Source: AR Society of Certified Public Accountants

Debt Management - Good vs. Bad Debt

Not realistic to live without debt unless for most persons

GOOD DEBT - anything you need and cannot afford to pay without liquidating your cash reserves, normally increases in value or investment

- Buying a home
- Financing a car – considered necessity
- College tuition

BAD DEBT - anything you don't need and cannot afford, decreases in value

- Credit card debt
- Store credit cards

Rule of thumb: Total Debt payments should not exceed 36% of Total Gross Income

Credit Report



Benefits of a Good Report

- Qualify for credit when you need it
- Borrow at lower rate

Lenders use credit report, capacity to repay, character, and any collateral offered against the loan, in making lending decisions.

Three main credit reporting agencies:

- TransUnion
- Experian
- Equifax

Credit Report



Credit Report Information (personal):

1. Name and address
2. Social security number
3. Current/previous address
4. Date of birth
5. Employment information

Accounts (by type, mortgage, installment, revolving):

1. Date established
2. Maximum allowed credit
3. High balance
4. Current balance
5. Payment history

Public record information: bankruptcies, foreclosures, tax liens, garnishments, legal suits and judgements.

Not included in credit reports: Race, religion, natural origin, sex, age, salary, and any information not proven to be predictive of future credit performance.

Credit Report



- Review Credit Report

- Right to obtain one free copy of your credit report annually from the three reporting agencies: TransUnion, Experian, Equifax
- Review credit reports annually for incorrect information
- Request at [www:annualcreditreport.com](http://www.annualcreditreport.com) or
 - P.O. Box 105281 Atlanta, GA 30348-5281
 - 1-877-322-8228
- Report errors:
 - Credit Agency has 30 days to investigate and respond to you
 - TransUnion 1-800-888-4213 or www.transunion.com
 - Experian 1-888-397-3742 or www.experian.com
 - Equifax 1-800-685-1111 or www.equifax.com

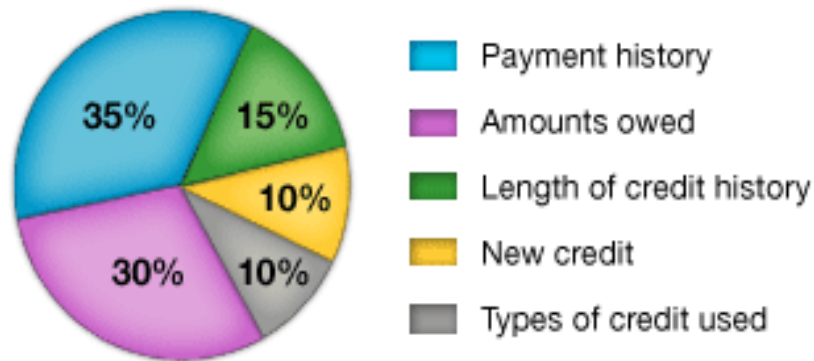
Credit Score



- Manage your credit health
 - What is a credit score?
 - Number that summarizes your credit risk, based on a snapshot of your credit report at a particular point in time.
 - Helps lenders evaluate your credit report and estimate risk
 - FICO® – Fair Isaac Corporation founded in 1956
 - Use advanced math and analytics to formulate score
 - Based solely on information in credit reports by reporting agencies & there are three different scores for each agency
 - Credit scores range from 300-850
 - Higher the score – lower the risk
 - Equal Credit Opportunity act prohibits consideration of gender, race, nationality or marital status

Credit Score

- How a FICO® score breaks down



Reflects the importance of the five major categories considered

Credit Score

Payment History – 35%

- Avoid late payments, if possible
- If missed payments, get current and stay current
- If having trouble paying, contact creditors or see a legitimate credit counselor

Amount Owed – 30%

- Amount owed on all accounts, and differ types of accounts
- How much of total credit line is being used – maxing out indicates future risk
- Pay off debt rather than moving around

Length of Credit History – 15%

- How long your credit accounts have been established
- How long has it been since you used certain accounts

New Credit – 10%

- How many new accounts do you have
- How long has it been since you opened new accounts
- How many recent requests for credit you have made
- Length of time since credit report inquiries were made by lenders

Types of Credit in Use – 10%

- Mix of credit cards: credit cards, installment, mortgage, etc.
- Closed accounts stay on credit report and history considered

What is a Good Credit Score?

- **Credit Score Chart & Range**
 - 760-850 **Excellent**
 - 700-759 **Very Good**
 - 660-699 **Good**
 - 620-659 **Fair**
 - 580-619 **Poor**
 - 500-579 **Very Poor**

Source: www.mortgage1a.com

Credit Score

- Example of credit score impact (750 vs. 650)
- \$150,000 30-year, fixed-rate mortgage

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Your FICO Score	Your Interest Rate	Your Monthly Payment
760 – 850	5.78%	\$878
700 – 759	6%	\$899
680 – 699	6.18%	\$916
660 – 679	6.39%	\$937
640 – 659	6.82%	\$980
620 – 639	7.37%	\$1,035

Score of 750 (6%) vs 650 (6.82%) = \$980 - \$899= \$81 per month * 360 months = \$29,160 over life of loan.

Debt Payoff Strategies



- How do I start to get out of credit card debt?
 - Gather all credit card statements
 - List all credit owed – balance, rate, minimum monthly payment due
 - Determine how much more above minimum payment you can afford to pay each month
 - Determine payoff strategy

Debt Payoff Strategies



- Two primary debt payoff strategies
 - Apply extra payment to smallest balance first – “rollover” or “snowball” strategy
 - Will show progress sooner – and provide motivation
 - Apply extra payment to most expensive debt first – card with highest rate
 - Will minimize amount of interest paid

Debt Payoff Strategies



Example 1 – 2% min payment

- Loan # 1 - \$2,500, 12% interest, \$50 min payment
- Loan # 2 - \$5 000, 17.99% interest, \$100 min payment
- As is, you pay \$5,311.35 in interest and debt free in 94 months

Strategy - \$100 extra to apply monthly

Highest rate first –

- \$2,037.49 in interest and debt free in 39 months
- Save \$3,273.86 and payoff debt 55 months sooner

Smallest balance first –

- \$2342.18 in interest and debt free in 40 months
- Save \$2,967.17 and payoff debt 54 months sooner

Source: Debt elimination calculator www.tcalc.timevalue.com

Debt Payoff Strategies



Example 2 – 3% min payment

- Loan # 1 - \$6,000, 15% interest, \$180 min payment
- Loan # 2 - \$5 000, 10% interest, \$150 min payment
- As is, you pay \$2,702.59 in interest and debt free in 44 months

Strategy - \$100 extra to apply monthly

Highest rate first –

- \$1838.06 in interest and debt free in 30 months
- Save \$864.53 and payoff debt 14 months sooner

Smallest balance first –

- \$2018.25 in interest and debt free in 31 months
- Save \$684.34 and payoff debt 13 months sooner

Source: Debt elimination calculator www.tcalc.timevalue.com

Living Debt Free – Spending Plan

- Track Expenses – Know what you are spending
- Analyze Spending - Categorize
- Create a Spending Plan a.k.a. Budget
 - Income and Expenses
 - Fixed (mortgage, rent) and Variable (Dining out)
- Review and adjust
 - Review monthly and make necessary adjustments



Q & A



Resources

- Debt elimination calculators
 - www.bankrate.com
- Publication – “Understanding Your Fico Score”
 - www.myfico.com/Downloads/Files/myFico_UYFS_Booklet.pdf
- Free annual credit report
 - www.annualcreditreport.com