



# Focus on Finances

Community Action Conference  
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## U.S. Statistics

- 46 million Americans, including children, live in households that have income below the federal poverty level.
- An additional 60 million people, including children, live in households that have income that is, while higher, below twice the poverty level.

\*2011 US Census data

## U.S. Statistics

- 8.2% of households have no bank account.
- 20.1 % are “underbanked.” These households have a checking or savings account but used payday loans, rent-to-own, pawnshops or refund anticipation loans (RALs) in the last 12 months.

\* FDIC 2011 National Survey

# Challenges

- Consumers with low incomes face policy-related, institutional and personal barriers that restrict access to the financial system.
- Barriers can include:
  - Lack of physical access
  - Identification requirements
  - Unaffordable service fees
  - Lack of products that align with their needs

# Personal Challenges

- Many individuals often have no past exposure to how to make financial decisions.
- You don't know what you don't know.
- Poverty can be generational, you learn from observing those around you in both positive and negative ways.
- A lack of mentors or positive role models.

# Personal Barriers

- Include:
  - Not being exposed to basic budgeting concepts
  - Debt issues
  - Inability to qualify for loans because of little, poor or no credit history
  - Lack of understanding about credit
  - Lack of knowledge about reviewing credit reports or how to correct an error on credit reports
  - \* CFPB Empowering low income and economically vulnerable consumers

# Symptoms of Financial Vulnerability

- You have no savings
- You are paying more than 10% of your net monthly income on your debt monthly payment
- You are paying the minimum bill payment on your credit card bill (s)
- You are having to pay late fees
- Your utilities are threatened to be disconnected
- You are getting debt collection calls

# Question

- What is Financial Literacy?



# Answer

- Financial Literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial wellbeing.
- The foundation for Money Management.
- **For low income families, it usually deals with budgeting, saving and reasonable debt levels.**

# Question?

- What is a budget?

## Answer

- A financial plan to help you meet your goals, control spending, and save money in the process.
- It helps you make ends meet, live within your means, avoid borrowing beyond your repayment capacity.

## Why is it Important?

**Budgeting is simply balancing your expenses with your income.**

If they don't balance and you spend more than you make, you will have a problem.

Many people don't realize that they spend more than they earn and slowly sink deeper into debt.



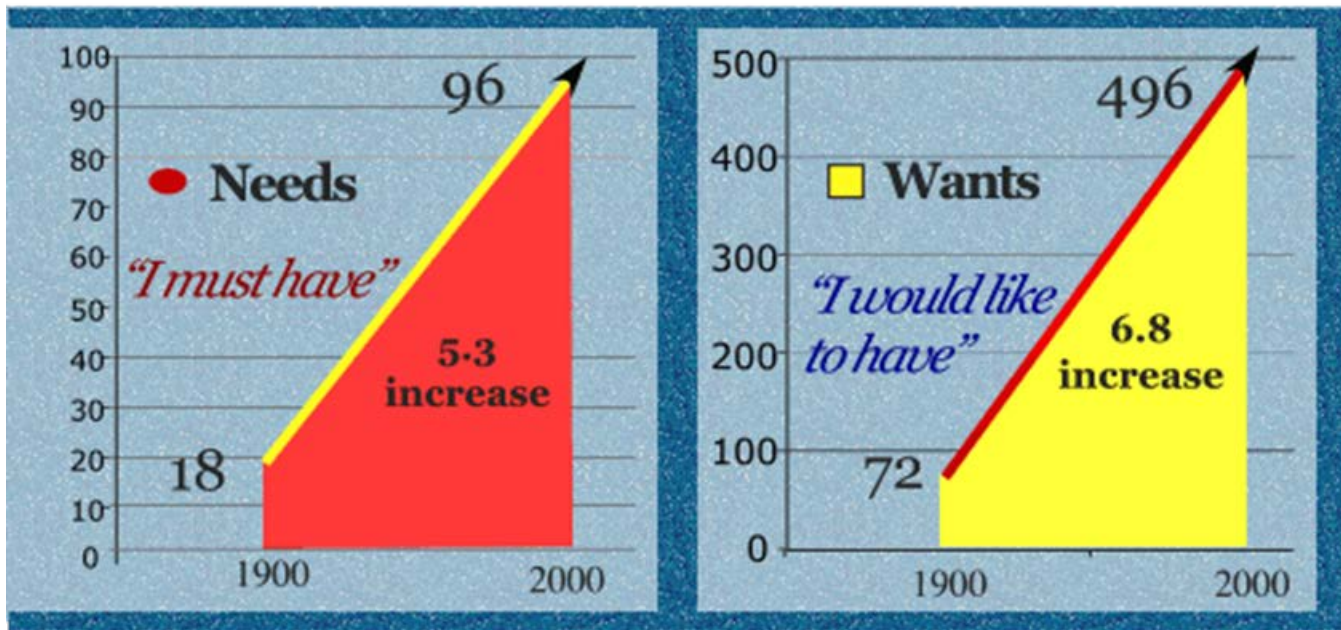
## How Much Debt is too Much?

- 69 % of Americans are in debt by an average of \$70,000.
- Consumers with the greatest amount of growing debt were those in the age group of 35 to 45, with roughly \$108,000 in debt.
- Those aged 45 to 55 were carrying \$86,500 in debt
- And people aged 55 to 65 were saddled with \$70,000 in debt.
- College students graduate with an average of \$30,000 in student loans.

\*United States Census Bureau; (2010)

# Necessary vs. Discretionary

## Needs vs. Wants



“At the beginning of this century, the average American had 72 wants and considered 18 of them important. By the end of the century, the average American had 496 wants and considered 96 of them as genuine necessities for happiness.” (Miller)

# Recognize Careless Spending

- Careless Spending leads to Overspending
- Impact of purchasing on financial big picture
- Assess every purchase
- Bring your spending habits to a higher awareness level
- Periodic expenditures – car insurance, special events or holidays

## Budgeting Basics

- Track your spending against your current budget.
- Conduct an ongoing review of your budget.
- Maintain a level of saving throughout the year.
- Pay yourself first.
- Keep an emergency fund – even \$500 in savings can have a profound impact on unexpected life events.



# Methods to Help Make the Process Easy

- Use paper ledger
- An electronic spreadsheet
- Personal finance software
- Free services by your bank
- Free trusted site on the internet

# Recommended Budget as a percentage of Net Income

<b>Income - Cash In</b>	<b>100.00%</b>
1. Saving	10.00%
2. Housing	30.00%
3. Utilities	5.00%
4. Food	20.00%
5. Transportation	10.00%
6. Entertainment	5.00%
7. Debt	10.00%
8. Other	10.00%

# Credit

- The Basics of Credit
- Credit Scores
- Establishing Credit
- Maintaining Good Credit
- Managing Credit Challenges

# The Five C's of Credit

C = Capacity

C = Capital

C = Collateral

C = Conditions

C = Character



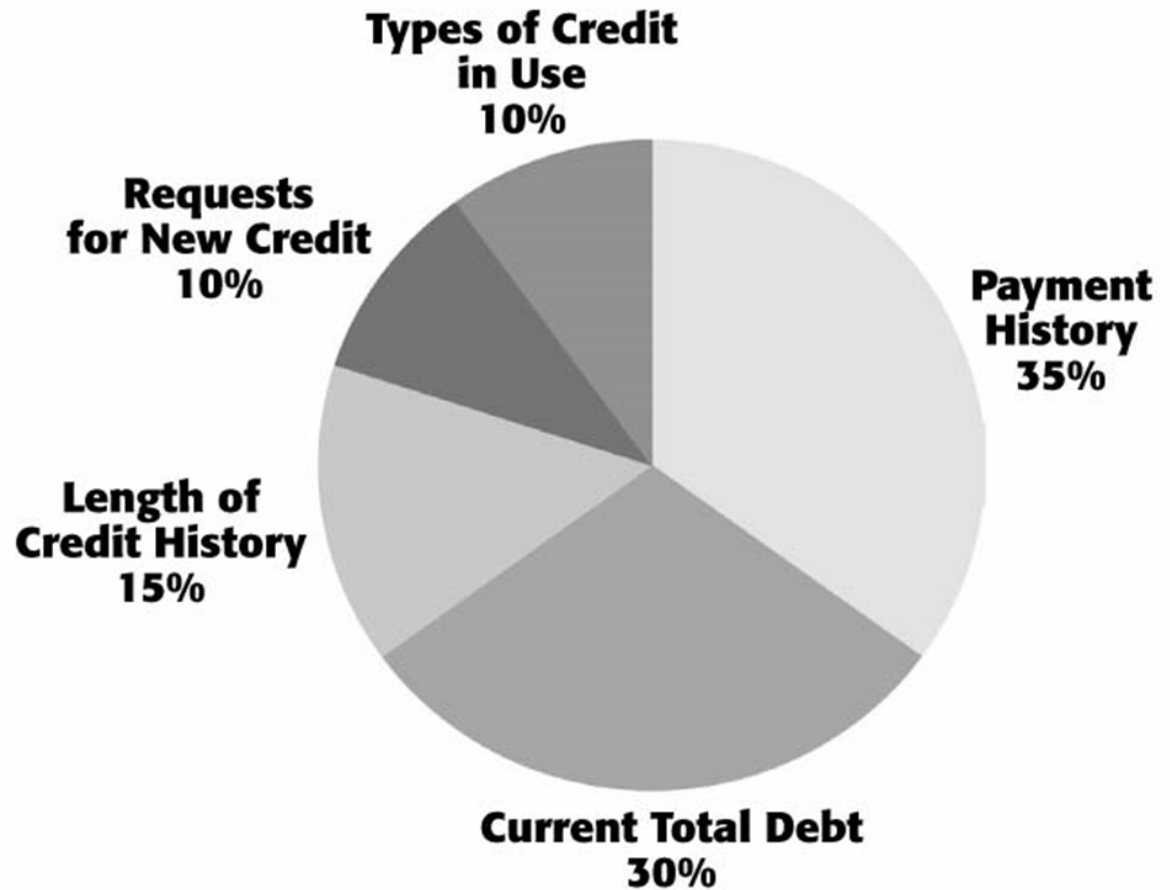
# Questions to Ask Before Using Credit

1. Is this a necessity or luxury item?
2. Do I really need this good or service?
3. Can I pay for it without hurting my existing budget?
4. Do I really understand all of the terms and obligations ?
5. Do I realize that this would cost less if I paid cash?
6. Can I repay the debt quickly to avoid finance charges?

# What is a Credit Score?

- A credit score is a number that helps a lender predict how likely an individual is to repay a loan, or make credit payments on time.
- A credit score is a number that changes as the elements in a credit report change.
- A credit score has broad use and impact. Your credit past is your credit future.
- FICO® scores, one of the most common credit scoring systems, vary between 350 and 850.

# WHAT MAKES UP A TYPICAL CREDIT SCORE?



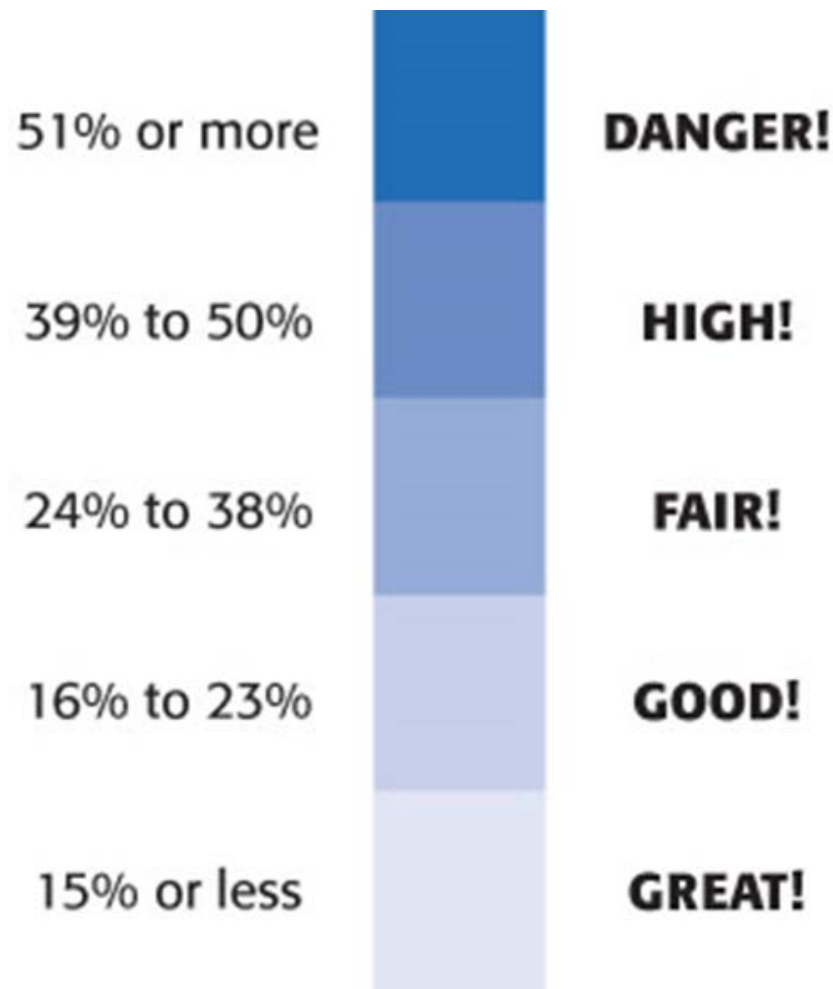
Source: Fair Isaac and  
Consumer Federation of  
America

# Improving Your Credit Score

- Pay bills on time
- Get current and stay current
- Don't open a lot of new accounts too rapidly
- Check your credit report
- Correct mistakes
- Shop for loan rates within a set period of time
- Keep balances low on revolving credit
- Pay off debt



# Debt to Income Ratios



# Things to do to Establish and Maintain Good Credit

What can everyone do to establish and maintain good credit?

1. Pay all bills on time
2. Avoid late fees
3. Get copies of credit reports every year
4. Don't spend beyond your means
5. Others ???

# Costs of Credit

How much can credit cost? If you make only the minimum payment for an item, here are some examples of what you might actually pay and how long it will take you to pay it.

Balance*	APR	First Month Payment	Interest Costs When Making Just the Minimum Payment	True Costs When Making Just the Minimum Payment on Time	Number of Years to Pay for the Item
\$500	15%	\$20	\$100	\$600	2.4
\$1,000	15%	\$22	\$552	\$1,552	6.3
\$2,500	15%	\$55	\$2,377	\$4,877	13.9

# Correcting Credit Problems

- Take responsibility for actions
- Communicate with creditors
- Create a Budget
- Credit Counseling
- Debt Consolidation
- Bankruptcy

## Seek additional financial education

- Being financially literate requires lifetime learning.
- There are many quality financial education resources available – websites, books, courses, personal bloggers.
- A financially literate person will oftentimes save more money, reduce stress and reach their goals more effectively than others.

Thank you!  
Comments and Questions



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