

Go! Learn

Financial Literacy Program by Legence Bank



Overview

- Budgeting Your Money
- Understanding Your Paycheck
- Building Your Credit & Loan Basics

Budgeting Your Money

Benefits of Using a Budget

There are a lot of reasons to use a budget:

- **Less stress:** Even though budgets can be challenging at first, in the long run they can lower your stress by helping ensure you've got all your expenses covered and can save for the future. Money is cited as a source of stress for most people, and budgets can help to solve these financial problems over time.
- **Prepare for emergencies:** Your budget should include saving for an emergency fund that can keep you from going into debt if you lose a job or have an unexpected expense.
- **Reach your big financial goals:** Budgets make sure you have enough for your everyday spending *and* those longer-term goals that are hard to save for.
- **Better credit score:** Budgets can help you plan your debt payments each month. By paying on time, you'll see your credit score rise over time.

The 50/30/20 Rule

- 50% of your Income → Needs
 - Housing
 - Food
 - Transportation
 - Utilities
- 30% of your Income → Wants
 - Entertainment
 - Travel
 - Restaurant Meals
- 20% of your Income → Savings & Debt

How to SAVE.....

Create a Budget.

Pay yourself first.

Determine your monthly bills and figure out what you need to live on.

Learn how to manage debt.

Prioritize your needs vs. your wants.

Budgeting Tools

- Online Budgeting Apps
 - Go!Focus – Legence Bank budgeting tool
 - Mint
 - YNAB
 - Personal Capital
- Envelope System
- Spreadsheet
- Notebook

General Budgeting Tips

- Once you have set up a basic budget, customize it according to your financial situation and goals.
- If you work on commission, be aggressive in saving to help cover periods when the market is slow.
- If you have cash flow issues because you are paid only once a month, divide that payment by weeks, and keep the cash you planned to spend in remaining weeks in a separate account until you need it.
- Pay with a credit card only if you will have the money to pay it off at the end of the month. Otherwise, you will owe interest on top of the price of whatever you bought.

General Budgeting Tips

- Adjust your budget monthly if you find you overestimated or underestimated your expenses. Keep an eye on large expenses that only occur every few months, such as insurance payments.
- If you tend to overspend in certain categories, use budgeting hacks such as switching to a cash-only budget.
- Once your expenses are lower than your income, budget towards savings goals before you increase your spending.
- Take time to learn other financial skills to improve your financial literacy and make your money work harder for you.

Understanding Your Paycheck

Compensation Package

- Total Monetary Compensation

- Base Salary
- Benefits & Perks
- Health Plans
- 401(k)



- Example Benefits:

- Life insurance
- Disability & Long-term care insurance
- Profit sharing
- Paid holidays & vacation time; unpaid leave
- Paid sick days
- Tuition reimbursement

- Example Perks:

- Phone, laptop, other work tools
- Flexible & work-from-home schedules
- Transport shuttles & parking
- Professional membership dues

Comparing Compensation Plans

Compensation Plan A – Year 1

Base salary: \$80,000

Bonus(es): \$2,500

Health Benefits: \$1,200

Other Benefits: \$1,000

Perks: 0

Total: \$84,700

Compensation Plan B – Year 1

Base salary: \$75,000

Bonus(es): \$4,000

Health benefits: \$1,500

Other benefits: \$12,125

Perks: \$2,700

Total: \$95,325

Decoding Your Paycheck

- Most companies use direct deposit → money is deposited directly into your bank account
- Identifying your account & routing number
- Important to read your paystub and check for errors
- Paper vs. Electronic Paystub
- Gross Pay vs. Net Pay
- YTD Gross

How to Read a Paystub

# 121213					EARNINGS STATEMENT		
Abstract United Jamaica, NY. 11433, USA		Pay Period: 03/28/2018 - 04/03/2018					
Marital Status: Single		Pay Date: 04/04/2018					
Exemptions: 0		Employee #: 2214					
		Johnny Bravo					
		Jamaica, NY. 45641, USA					
		Social Security #: ***-**-5546					
EARNINGS	RATE	HOURS	TOTAL	YTD TOTAL	DEDUCTIONS	TOTAL	YTD TOTAL
Salary	10	40	400.00	5,600.00	Fica - Medicare	5.80	81.20
Overtime	0	0.00	0.00		Fica - Social Security	24.80	347.20
Holiday	0	0	0.00	0.00	Federal Tax	45.10	631.40
Vacation	0	0	0.00	0.00	State Tax	20.00	280.00
Bonus	0	0	0.00	0.00			
Float	0	0	0.00	0.00			
					DEDUCTION TOTAL	95.70	1,339.80
	GROSS PAY		400.00	5,600.00	NET PAY	304.30	4,260.20

PSD[®]

POWERED BY PAYSTUB
www.paystubdirect.com

- Review paystubs immediately
- Make sure you understand each deduction
- Ensure proper amounts are deducted
- Report changes or discrepancies to your employer immediately

Standard Paycheck Deductions

- Required Deductions
 - State Income Taxes – Illinois 4.95%
 - Federal Income Taxes - Variable
 - Social Security – 6.2%
 - Medicare – 1.45%
- Voluntary Deductions
 - Health Insurance
 - Retirement Contribution

W-2 Tax Form

- Standard Deductions

- Federal Income Tax
- State Tax
- Social Security
- Health Insurance
- Garnishments
- Retirement Contributions
- Retirement Loans
- Exemptions

22222		a Employee's social security number 123-45-6789		OMB No. 1545-0008	
b Employer identification number (EIN) 55-5765489			1 Wages, tips, other compensation 48,500.00	2 Federal income tax withheld 6,835.00	
c Employer's name, address, and ZIP code The Big Company 12 Main Street Anywhere, NC 28111			3 Social security wages 50,000.00	4 Social security tax withheld 3,100.00	
			5 Medicare wages and tips 50,000.00	6 Medicare tax withheld 725.00	
			7 Social security tips	8 Allocated tips	
d Control number A1B2			9 Verification code	10 Dependent care benefits	
e Employee's first name and initial Jane A. Doe		Last name Anywhere Else, PA 17111		Suff.	
f Employee's address and ZIP code			11 Nonqualified plans		12a D 1,500.00
			13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b DD 1,000.00
			14 Other		12c P 4,800.00
					12d
15 State PA	Employer's state ID number 124578	16 State wages, tips, etc. 50,000.00	17 State income tax 1,535.00	18 Local wages, tips, etc. 50,000.00	19 Local income tax 750.00
					20 Locality name AW

Form **W-2** Wage and Tax Statement **2017** Department of the Treasury—Internal Revenue Service
Copy 1—For State, City, or Local Tax Department

Withholdings

----- Separate here and give Form W-4 to your employer. Keep the top part for your records. -----

Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate ▶ Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.		OMB No. 1545-0074 2016	
1 Your first name and middle initial		Last name		2 Your social security number	
Home address (number and street or rural route)			3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note: If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.		
City or town, state, and ZIP code			4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ <input type="checkbox"/>		
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)				5	
6 Additional amount, if any, you want withheld from each paycheck				6 \$	
7 I claim exemption from withholding for 2016, and I certify that I meet both of the following conditions for exemption.					
<ul style="list-style-type: none"> • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability, and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. 					
If you meet both conditions, write "Exempt" here ▶				7	
Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.					
Employee's signature (This form is not valid unless you sign it.) ▶				Date ▶	
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)			9 Office code (optional)	10 Employer identification number (EIN)	

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q **Form W-4** (2016)

401(k) Plans vs. IRAs

- 401(k)
 - Only offered by employer
- IRAs
 - Set-up by any individual who has earned income
 - Two different types:
 - Roth IRA
 - Traditional IRA
- What are the differences?

Building Your Credit & Loan Basics

What is a CREDIT SCORE?



Your credit score is a 3 digit number that relates to how likely you are to repay your debt. Banks and lenders use it to decide whether they will approve you for a credit card or loan.



Lenders use credit scores to determine who qualifies for a loan, the interest rate, and your credit limits.



The 3 main credit bureaus include; Equifax, Experian, and TransUnion. they create your credit reports and can vary by a few points.



Once you start building credit, you should review your report for errors- if you find something, call and dispute.



One of the most well-known types is FICO- created by the Fair Isaac Corporation.

What is a Good CREDIT SCORE?

Scores range from
300-850.

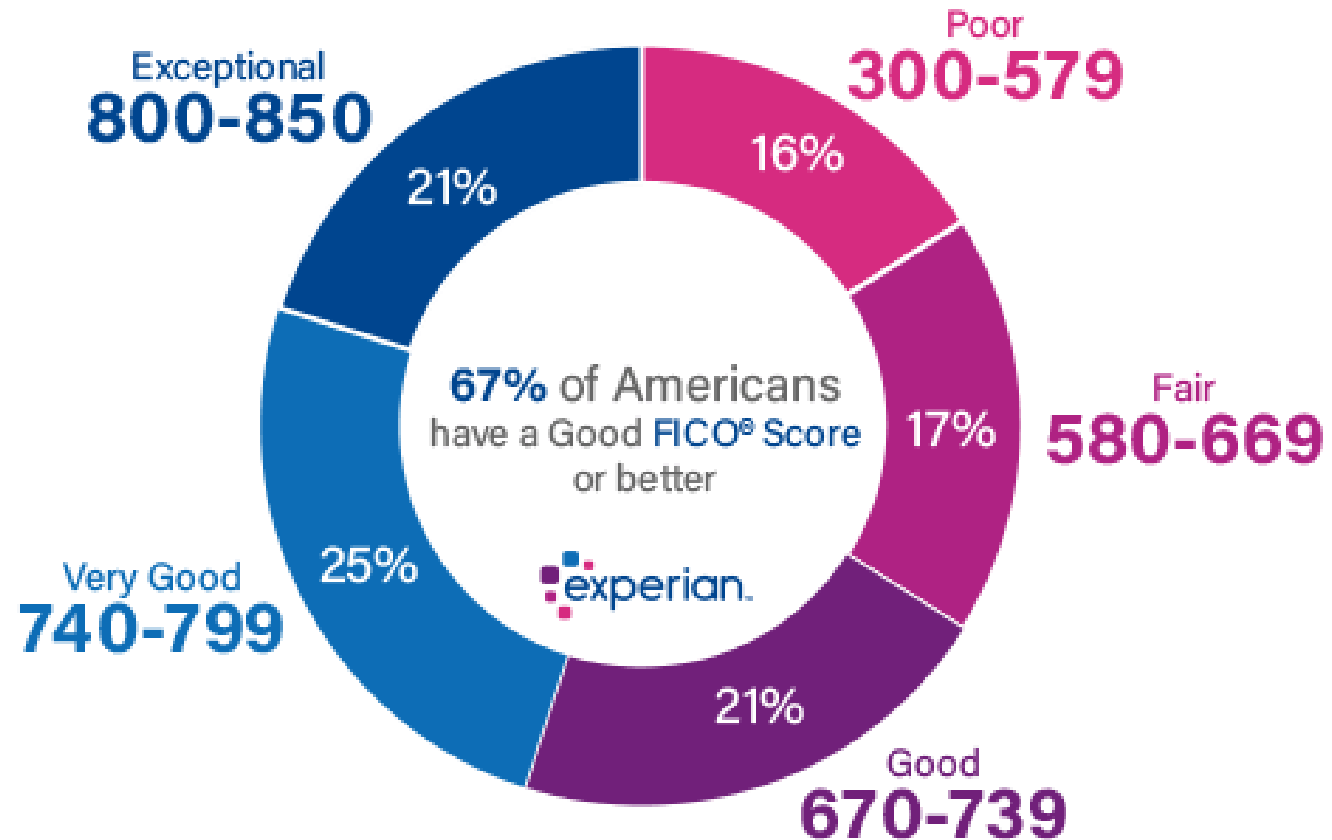
A credit score of 700 or
above is considered good.

A score of 800 or above is
not common. Most scores
fall between 600-750.

Higher scores represent
better credit decisions and
can make creditors more
confident that you will
repay your future debts.

Higher scores also result in
lower rates, resulting in
lower monthly payments
and less interest paid over
the life of the loan.

Credit Score Range Model



Source: Experian.com, 9.23.21

Understanding Your Credit

- What are the factors that affect a credit score?
 - Payment history- 35%
 - Credit or debt utilization -30%
 - Length of credit history- 15%
 - New credit- 10%
 - Types of Credit- 10%



Source: myFICO.com, 9.23.21

Payment History

Your payment history comprises of 35 % of your total credit score. It is also the most important factor in calculating credit scores.

According to FICO, past long-term behavior is used to forecast future long-term behavior.

FICO keeps an eye on revolving loans, such as credit cards, installment loans, in addition to mortgages or student loans.

One of the biggest issues we see when pulling credit is late payments. Late payments hurt credit the most. As a lender, we don't want to lend money to people who are not paying their bills.



Credit or Debt Utilization



Credit Utilization is the percentage of available credit borrowed and makes up 30% of your total credit score.



FICO views borrowers who habitually max out their credit cards as people who cannot handle debt responsibly. We encourage you to maintain low credit card balances.



The first two factors make up nearly two-thirds of your score. So, if you pay your bills on time and don't carry big credit card debt balances, you're two-thirds of the way towards a good score.

Length of Credit History

The length of time each account has been open and the length of time from your most recent transaction, is 15% of your total credit score.

A longer credit history provides more information and offers a better picture of long-term financial behavior.

If you don't have a long credit history, you can still have an excellent FICO score, as long as you don't miss payments and have low utilization ratios.

Opening New Credit

New credit accounts for 10% of your total FICO credit score, but this doesn't mean that opening multiple credit lines at the same time will improve your score. In fact, such behavior could suggest you are in financial trouble by needing significant access to lots of credit.

Apply and open new credit accounts only as needed, new accounts will lower your average account age.

Credit Mix - Types of Credit



- Credit mix makes up the last 10% of your score.
- While this is a vague category, experts say that repaying multiple debt products indicates that the borrower can handle a variety of credits. According to FICO, historical data indicates that borrowers with a good mix of revolving credit and installment loans generally represent less risk for lenders.
- People with no credit cards tend to be viewed as higher risk than people who have managed credit cards responsibly. Having credit cards and installment loans with a good credit history will help your FICO scores.

Things That Don't Hurt Your Credit



Soft Inquiries



**Home Loan
Rate Inquiry**



**Checking credit score
through credit card**

Missing a card or loan payment

Bankruptcy/Foreclosure

Collections or charge-offs

Being a co-signer on a defaulted loan

Cancelling a credit card

Applying for too many credit lines in a certain timeframe

Errors on your credit report

Things That Will Hurt Your Credit

Where to Start Your Credit



- Apply for a secured credit card
- Apply for a credit builder loan or a secured loan
- Get a co-signer
- Become an authorized user on another person's credit card
- Make sure you receive credit for the bills you pay

How to Choose the Right Card for You....

- Low introductory or 0% annual percentage rate
- Understand the introductory date range
- Avoid a card with annual fees
- Check grace period time frames
- Find out specifics; late fees, transaction fees, over limit fees
- Know your credit limit
- Weigh the value of credit card rewards programs, frequent flyer miles, extended warranties, etc.



Borrowing Smart

At some point, you will need to borrow money, which means taking out a loan. In order to maintain financial stability, you must borrow smart from the very beginning.

When considering a purchase, consider these questions:

Do I really need this item?

Would it make better sense to save for this item in the future and pay cash?

Can I afford this purchase?

Will this purchase cause me to struggle paying my debt?

Loans 101

- The most common loans are for HOMES, AUTOMOBILES, and EDUCATIONAL expenses.
- The loan products that we offer to fill these needs fall into three categories:
 - Personal
 - Mortgage
 - Commercial
- With any loan, you should consider several factors when comparing the cost and which bank you should apply for loan:
 - Interest Rate
 - Fees
 - Down Payment
 - Collateral

What Determines Loan Approval?



Your credit score



Your debt to income (income you have coming in vs. debt you have going out)



Cost of living (especially in Ag and Commercial loans)



Apply the 5 C's of Credit (Character, Capacity, Capital, Collateral, and Conditions)

Required Documentation

- Signed loan application
- Bill of Sale or Sale Contract
- Paystubs for the last two months
- Tax Returns for 1-2 previous years
- If you are a business, you will provide the following:
 - Schedule C (businesses) or Schedule F (Farmers)
 - Projections
 - Balance Sheet
 - Profit and Loss Statement