Budgeting Boot Camp Basics

Tactical Handbook

HAVERFORD

QUALITY INVESTING

The Haverford Trust Company

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How to Budget

Overview

Establishing and maintaining a solid grasp of your finances is key to reaching your financial goals. When you understand where your money goes, you can find ways to ensure that you're not overspending. Follow these four steps to develop your budget battle strategy:

Step 1:

Record your total monthly income. This includes your paychecks and interest income from investments.

Step 2:

Record all of your expenses. Every small purchase counts, so be sure to use your weekly tracker to capture, tracking everything you buy for at least one full month.

Step 3:

Categorize your spending. Divide your expenses into "non-discretionary" spending, such as housing costs, transportation, insurance, groceries, utilities, etc., and identify which ones vary from month to month. Then, note "discretionary" spending - things that aren't true necessities — like movie tickets, MP3 downloads, gifts, hair and nail appointments and eating in restaurants.

Step 4:

Target discretionary spending. This is the easiest area to cut expenditures. Balance your income and expenses monthly to make sure you're not spending more money than you earn. Create a realistic plan and stick to it.

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Saving 101

Overview

Make saving a habit, just like exercise or diet. Once you get in the habit of saving, you're on your way to building a strong foundation for your financial security. And it's the best way to prepare for planned and unexpected expenses.

How to choose your savings account

There are a few things to keep in mind when choosing a savings account. First, growth comes from the deposits you make plus the interest you earn. Sometimes this interest rate is referred to as "rate of return" or "annual percentage yield (APY)." Make sure you're aware of any fees that may apply to minimum balance requirements or withdrawal limits.

How to grow your savings

Making recurring or automatic deposits is critical to building your savings. By setting money aside from your paycheck or checking account to your savings, you'll find that cash is less likely to be spent. Plus, you'll be prepared should unexpected expenses arise.

How to use your savings account

Let's say you open your savings account with $500. Once you start depositing money, make sure to keep track of your deposits, withdrawals and transfers so you don't get any unexpected service charges. You can also track and manage accounts using your bank's online or mobile services. After you've accumulated extra money for unexpected expenses, you may want to consider opening a separate savings account for special purchases.

	6 Months	12 Months	18 Months
Starting Balance	$500	$500	$500
Add $50 per month	$300	$600	$900
Earn 1% interest	$3.80	$8.70	$15.13
Total	$803.80	$1,108.70	$1,415.13

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Standard account types

Bank Savings

There are three basic types of bank savings accounts: regular savings, money market savings and certificates of deposit. It is important to know that any deposits you make into a bank savings (or checking) account, money market account or Certificate of Deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per insured bank, for each ownership category. Since the FDIC was established in 1933, no depositor has ever lost a single penny of FDIC-insured funds.

Here's how they work:

Regular Savings

- You earn interest on your balance.
- You can access your money anytime.

Money Market Savings

- Your interest rate increases as your balance increases.
- Your interest rate changes more often as the economy changes.
- You can access your money anytime, including by check but you may be limited to the number of withdrawals that you can make each month. Be sure to check with your bank.

CDs (Certificates of Deposit)

- The bank pays you a set interest rate on a set amount of money over a predetermined period of time. That means, if you put money away for a set period of time without touching it, the bank will pay you a higher interest rate than it would on a regular savings account that you can withdraw money from.
- Generally the longer the term of the CD, from as short as seven days to as long as ten years, the higher the interest rate yield.
- This may be a simple way to earn a higher fixed interest rate with no fees.

Higher balances and longer terms can earn higher interest rates.

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Credit Card Basics

Overview

It's important to fully understand what a credit card is and how it works. How you use and manage your cards will have a big impact on your financial future. When you use credit cards wisely, you'll have a simple way of managing your finances from month to month.

What exactly is a credit card?

A credit card is more than just a piece of plastic. It's a loan from a financial institution that you can use, and then repay over time by making monthly payments. Your credit card will have a set limit, and you'll need to keep your total balance under that limit. When you make payments, you'll be repaying the amount you spent, plus interest — unless your account has a grace period, you make purchases only and you pay for your full balance each month.

Three basic types of credit cards

General Purpose Credit Cards (revolving credit cards). These are credit cards that can be used to pay for just about anything, anywhere from clothes to food to flights. Visa® and MasterCard® credit cards are examples. If you want some flexibility in the amounts you spend and repay month to month, a general-purpose credit card will meet your needs. Keep in mind that if you have a grace period on purchases (most cards do), but you don't pay off your balances in full from one month to the next, interest is charged on the remaining balance.

Store Cards. Store cards (also known as single- or limited-purpose cards) are credit cards that can be used only in a specific store or group of stores, or for a specific purpose. Department store cards and most of your favorite clothing store cards are examples. The interest rate on this type of card is typically a lot higher. Many stores may offer a special promotion (for example, 15% off your first purchase) when you open an account, but with the higher interest rate it may not be such a great deal in the long run.

Charge Cards. Traditional charge cards require you to pay for purchases or services in one lump sum within a given period of time. Usually, you don't have to pay interest for this type of credit, but you are required to pay the balance in full each month. Charge cards also may be called travel and entertainment cards — some examples are the American Express® and Diners Club® charge cards.

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Benefits of using credit cards

- You don't have to carry cash or write checks.
- You can use it to pay for unexpected, emergency expenses, such as car repairs and medical bills.
- If occasionally you don't have cash available for necessities, such as food, water and gas, you can still purchase them.
- You'll receive a monthly statement, which includes a record of all your purchases, so you can track how much you're spending.
- You can consolidate all your spending into a single, monthly payment.
- You may receive purchase protection and extended product warranties.

Cautions about using credit cards

- You are responsible for the charges you make on the card.
- Things you buy may cost more than you expect, due to accumulated interest charges.
- If you mismanage your card account, you may incur fees such as late fees.
- You'll need to set a budget, and make sure you can pay back whatever you're spending.
- Beware of impulse buying, which can break your budget.
- Making late payments can adversely affect your credit score.

Using credit cards responsibly

Credit cards offer convenience and give you a simple way to track all of your spending from month to month. That convenience requires a lot of responsibility. By managing your card usage properly, you create a track record that shows lenders you know how to manage credit. With a proven track record, lenders are more likely to lend you money for larger, more important purchases — like a new car or home.

No matter what you use your credit card for, it is important that you:

- Always pay at least the minimum amount due, as shown on your monthly statement. If you can pay your entire balance each month, that's even better, and will help you avoid high interest costs.
- Make your payments on time, every time.
- Make sure the total of all your transactions is within the limit for your card.
- Never spend more than you can afford to pay back. Consider this guideline: Credit card spending and other borrowing (not including rent or mortgage payments) should generally not exceed 20 percent of your after-tax income.

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Watch out for these signs of credit trouble:

- You don't know how much you owe until the bills arrive.
- You often pay your bills late.
- You are often unable to make a minimum credit card payment.
- You frequently exceed or approach your credit limit.
- You use your credit lines or cash advances to pay bills.

How to deal with credit difficulties:

- Call your creditors and talk to them directly. You may be able to arrange a payment schedule.
- Stop using your credit cards.

Missing payments will hurt your credit rating and can expose you to interest rate increases with your existing card, or future loans. That's because when creditors discover that you're unable to pay your bills, they're less likely to trust you with other loans or credit cards.
Credit card safety

Financial institutions are continually finding new ways to stay ahead of criminals and to protect you. If your card is lost or stolen or you think you're a victim of fraud, notify your issuing financial institution(s) immediately. If your card displays the Visa® or MasterCard® logo and you know your credit card number, Visa® and MasterCard® have toll-free numbers that can help: Visa® 1.800.VISA.911 / MasterCard® 1.800.MC.ASSIST

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Overview

Your credit score is an important number that indicates to potential lenders how well you've managed your finances in the past and how likely you are to repay your debts based on your credit history. Your score can have a big impact on whether you can be approved for a credit card or loan, and what the interest rate will be.

About your credit report

Your credit report is basically a complete file of your financial history. Creditors look at it to find out how you've handled your debts and whether you've consistently paid your bills on time. Your report includes your credit score, along with details on all of your past and current debts. This report usually contains information such as:

- Whether you've paid your credit card and loan bills on time.
- How you've handled other expenses, like rent and utilities.
- How much credit is currently available to you, on credit cards you already have.
- The total amount of debt you have outstanding.

Your credit report may be checked by various organizations with legimate business need, such as:

- Banks, as they determine whether to offer you a credit card or loan — and as they decide what interest rate to offer.
- Landlords who are deciding whether or not to rent to you.
- Employers who may want to offer you a job.
- Auto insurance providers, and even cell phone companies, who want to know if they can rely on you to pay your bills.

A strong credit history can help you get loans, insurance and an apartment when you need them. In general, the higher your score, the more likely you are to obtain the financial tools you need.

What your credit score means

Higher end of the scale: Lenders see you as a moderate to low risk and are more likely to give you a competitive interest rate on loans they provide.

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Middle of the scale: Lenders consider you to be a fair to good risk, but interest rates on loans provided will probably be higher. You should work to improve your score by paying your bills on time and reducing your outstanding debt.

Lower end of the scale: Lenders may be very wary about extending loans or credit to you if you fall into this high-risk range, so improving your score should be a priority.

By paying your bills on time, making at least your minimum payment due on your credit card each month, and staying within your credit limit, you'll earn a good credit rating that will help you get the things you need in the future.

How to check your credit report

There are three credit-reporting bureaus, and you have a credit report listed with each of them. You're entitled to a free report each year from each of the three bureaus so that you can check its accuracy. For details, you can visit each bureau online:

Equifax — www.equifax.com
Experian — www.experian.com
TransUnion — www.transunion.com

Check your credit rating once each year to be sure that the information provided on your report is accurate. If you find any errors, report them to the bureaus immediately.

Establishing good credit

Your credit history is a financial profile. So if you manage money well, banks and businesses will want to do business with you. Here are a few things that can help you build a strong credit history:

- Pay off credit cards, loans and service payments in full as soon as they are due. Avoiding late payments is a great start to your credit history.
- Budget for expenses like rent and utilities.
- Balance your checking and savings accounts to avoid overdrafts or bounced checks.
- Know and keep track of your total outstanding debts.
- Know how much credit you have available on your cards and how much you owe.

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Credit criteria

When you apply for credit — such as a car loan or credit card — creditors use specific credit criteria to determine if they should do business with you:

- Ability. Are you able to repay the debt? Do you have sufficient income or any valuable assets (like real estate, savings or investments) that you could use to repay credit debts if needed? — The Credit CARD Act also requires young adults under the age of 21 to show independent means to repay the debt or have a guarantor/co-signer (see glossary for definitions)
- Stability. Do you have a reliable job that provides enough income to support your spending?
- Willingness to Pay. Do you pay your bills on time?

Someone can turn you down for credit (a loan, insurance or employment) for many different reasons. If part of that decision was based on something in your credit report, they are required to share that with you. You should immediately contact the credit reporting company that created the report and ask for a copy. If you ask for it in writing within 60 days after being turned down for credit, by law, the company has to give you a free report. This will help you to identify problem areas in your credit history so you can work to correct them for the future. Remember, if there's an error on your credit report, make sure you dispute it promptly.

How bankruptcy can affect your credit score

An individual files for bankruptcy when they are unable to pay off their debt. A judge must declare the debtor to be unable to meet his or her debt obligations. When this happens, the individual is no longer responsible for repaying the debt. Under today's bankruptcy laws, it is very difficult to declare bankruptcy.

If you file for bankruptcy, it will be listed on your credit report for up to 10 years. As a result, your credit score will decrease and it may be very difficult to obtain a loan, rent an apartment or find employment. Some issuers of credit may still extend credit, such as a personal loan or credit card account, even though you have filed for bankruptcy. Other creditors may give you credit only after a certain number of years or not until the bankruptcy is removed from your credit report.

Glossary

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Annual Fee – A fee that is charged once a year for the privilege of using a credit card account.

Annual Percentage Rate (APR) – The yearly rate of interest. The APR is listed in the account agreement, as well as on your monthly billing statement.

ATM Card – A card used in an automated teller machine (ATM) to access an account to complete banking activities.

Average Daily Balance Method – is the balance subject to interest charge, determined by adding up daily balances, then dividing them by the number of days in the cycle.

Bankrupt – is the status of being legally declared unable to pay your debts as they become due. A declaration of bankruptcy will remain on a person's credit report from 7 to 10 years and, in some cases, indefinitely. Declaring bankruptcy is generally considered a last resort.

Billing Cycle – The length of time between billing statements.

Budget – A document that lays out a financial plan based on estimates of expenses and income.

Charge Card – Unlike revolving credit card accounts, which allow you to carry balances from month to month, charge card accounts must be paid in full every month.

Credit Card – Unlike charge cards, these cards allow you to carry over portions of your balance from month to month. However, if you do not pay your balance in full, you are assessed interest charges. To protect your credit rating, be sure to pay at least the minimum amount due by the payment due date.

Credit Report – The record of your credit history. It shows whether you pay your bills on time, how much debt you have, and the like.

Credit Reporting Agencies – Credit reporting agencies collect and report vital facts about your financial habits. These facts are then compiled into a "credit report," which can be accessed by potential creditors, employers, and the like. The three major credit reporting agencies are Equifax, Experian and TransUnion.

Glossary................cont'd

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Debit Card – This enhanced ATM card deducts money from your deposit account when you use it to make a purchase or get cash.

Delinquency – Failure to make payments on time.

Grace Period – If you have a credit card, the 25-day interest-free period between the time of a purchase and the payment due date shown on your next statement. Cash advances and balance transfers generally do not have a grace period and start to accrue interest immediately.

Income - Economic wealth that is generated in exchange for an agreed upon activity or through investing capital. Income is consumed to fuel day-to-day expenditures. "Gross Income" is all income, before taxes or costs-of-goods-sold.

Interest - The charge for the privilege of borrowing money, typically expressed as an annual percentage rate of the principal.

Interest Charge – The sum of interest on your credit card account broken down by transaction type: purchases, cash advances and balance transfers.

Interest Rate – The cost for the use of a credit card, loan or line of credit, expressed as percentage of the total amount loaned. Different types of loans charge different rates of interest.

Minimum Payment – Shown on your credit card statement, the lowest amount you can pay every month, based on that month's balance at the time of billing.

Previous Balance – How much you owed your card issuer at the end of the last month.

Principal – The actual dollar amount of the purchases you made or the balance that remains on your loan or credit card account.

Introductory APR – A temporary, usually low, interest rate (expressed as an Annual Percentage Rate) offered by providers to "introduce" you to their services. It will usually expire after a certain amount of time.

Saving - the amount left over when the cost of a person's consumer expenditure is subtracted from the amount of disposable income that he or she earns in a given period of time.

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Servicing Agencies (Servicers) – Companies that administer loans for the Department of Education, lenders and secondary markets. They issue monthly statements, handle billing and collect payments. If your lenders transfer administrative tasks to a servicing agency, you'll receive your payment schedule from and make your payments to that agency.

Security - An instrument representing ownership (stocks), a debt agreement (bonds) or the rights to ownership (derivatives).

Transaction Fees – Fees charged when you make certain types of transactions. Transaction fees are typically assessed on balance transfers, cash advances and cash-like transactions, such as money orders, wire tranfers and casino gaming chips.

References:

Annual Credit report Request Service - www.annualcreditreport.com, 1.877.322.8228
Consumer Credit Reporting Companies:

- Equifax (www.equifax.com/ T: 1.800.685.1111)
- TransUnion (www.transunion.com/ T: 1.800.916.8800/1.800.888.4213)
- Experian (www.experian.com/ T: 1.888.397.3742)

Sources:

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1. Annual Credit Report Request Service –(www.annualcreditreport.com - 1.877.322.8228)

2. Consumer Credit Reporting Companies

- Equifax (www.equifax.com / 1.800.685.1111)
- TransUnion (www.transunion.com / 1.800.916.8800 or 1.800.888.4213)
- Experian – (www.experian.com / 1.888.397.3742)

3. Student Aid and Loans - U.S. Department of Education (www.ed.gov)