

# Financial Education – Nuts & Bolts of Family Finance

Presentation for the  
2009 Northeast Strengthening Families Conference



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Providence Biltmore Hotel

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New England Area Office of the  
Federal Deposit Insurance Corp (FDIC)



# Nuts and Bolts of Family Finance

## Basic Financial Education – What is it?

- Tax benefits (EITC)
- Health Benefits
- Tax credits
- TANF
- Medicaid
- Food Stamps
- Using Coupons
- Learning About CDCs
- WIC
- Social Security
- Bank Services
- Budgeting
- Savings & Investing
- Credit
- Predatory Lending
- ID Theft
- Scams
- Retirement

**G Steady Job**  
**G Decent Pay**

# What Does The Federal Deposit Insurance Corporation (FDIC) Do?


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- Insures Deposits on Personal Accounts and IRAs up to ... *\$250,000 until 12/31/09. Provides unlimited coverage for payroll accounts used by businesses to 12/31/09.*
- Examines Banks for Safety and Soundness, as well as compliance with consumer laws and regulations, including the CRA.
- Facilitates community development efforts thru initiatives such as financial education
- Recognizes efforts through Money Smart Alliance

# How Do I Get It?

<http://www.fdic.gov/moneysmart>

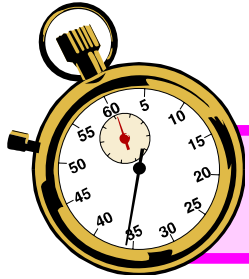
- ❑ Ten modules, for instructors only
- ❑ Order any of 9 versions - FREE



English	Russian
Spanish	Vietnamese
Chinese	
Hmong	Large Print
Korean	Braille

Young Adult Version

- ❑ Or take the course online at the above address.
- ❑ Or listen on the *Money Smart Podcast Network (MSPN)* – available shortly.



**30 Seconds**

## **LIFELINES**

**50:50**

**Call a  
Friend**

**Ask the  
Audience**

**What is a common product available at banks and credit unions?**

**A Money Orders**

**B Rubber Checks**

**C Money Laundering Kit**

**D Free Toasters**

*“Who Wants To Be A “Money Smart” Millionaire”*

**Developed by the Boston Office of the Federal Deposit Insurance Corp.**

**Level 1**

# 5 Ways the Community Benefits From Financially Capable Residents

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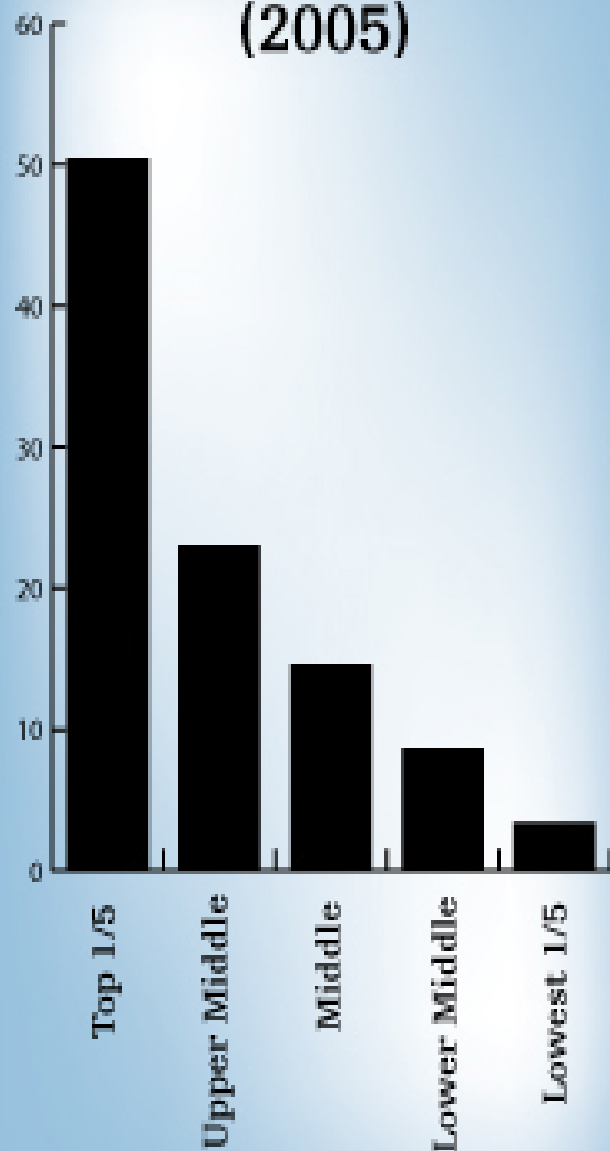
- ☑ Increased purchasing power and standard of living.
- ☑ Less dependency on government services
- ☑ Less victimization of residents, requiring less regulation and law enforcement services.
- ☑ More economically and socially integrated community
- ☑ Financially astute electorate

# What Role Does Financial Education Play in Workforce Development?

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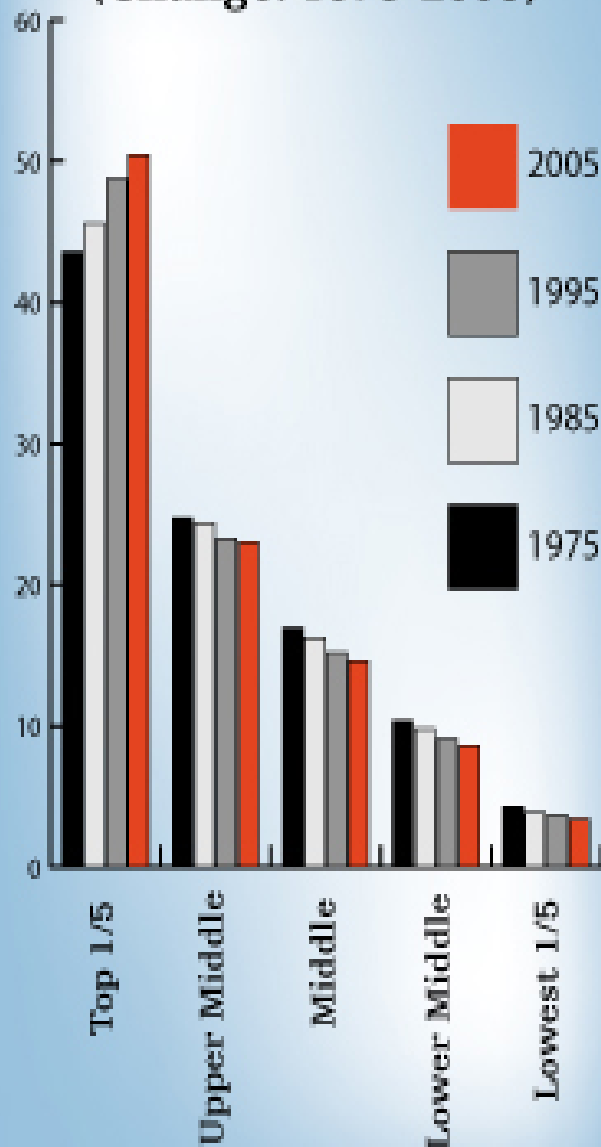
- ❑ The connection between education and earning power is well established.
- ❑ Knowledge to create a retirement savings plan
- ❑ Maintain an emergency savings account
- ❑ Prepares worker to enter the homeowner and credit markets
- ❑ Promotes personal and family stability
- ❑ Helps narrow the income gap between the “haves and have nots”

## Share of National Income (2005)



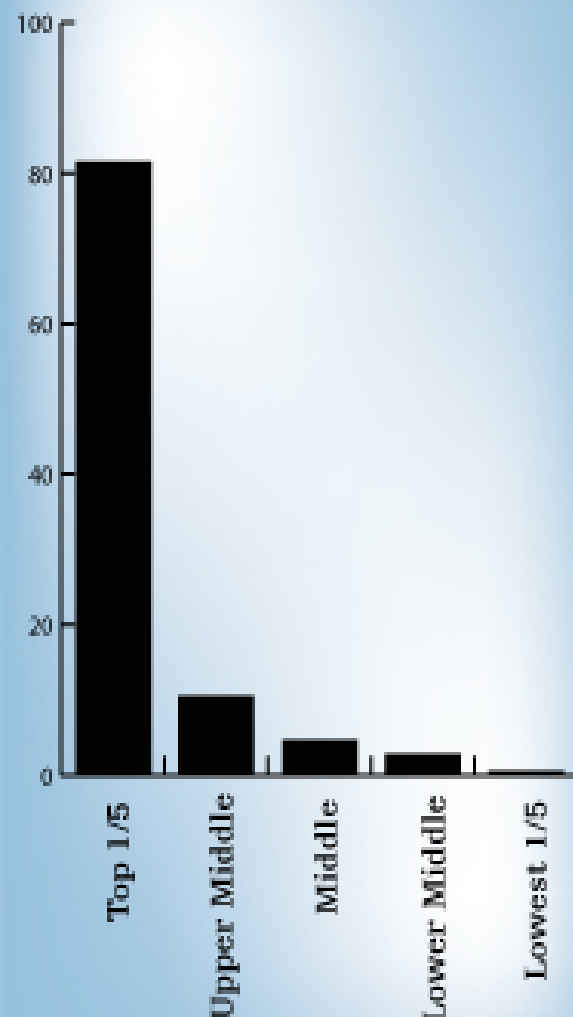
Sources: Census, Federal Reserve Bank, Economy.com

## Share of Household Income (Change: 1975-2005)



Source: Bureau of Census

## Share of Net Worth (2004)



Sources: Census, Federal Reserve Bank, Economy.com

Reprinted from the NPR series: **Haves and Have-Nots: Income Inequality in America (2/5/07)**

MONEY ORDERS 79¢

CHECKS CASHED

Egleston Sq, Roxbury

CHECKS CASHED

PASSES SOLD HERE

MONEY ORDERS

UTILITY PAYMENTS

IES



Household

LOAN USA

AMERICA'S PAWN SHOP  
LOAN MORE & SELL FOR LESS

Lawrence, MA

Braintree, MA

LOAN USA

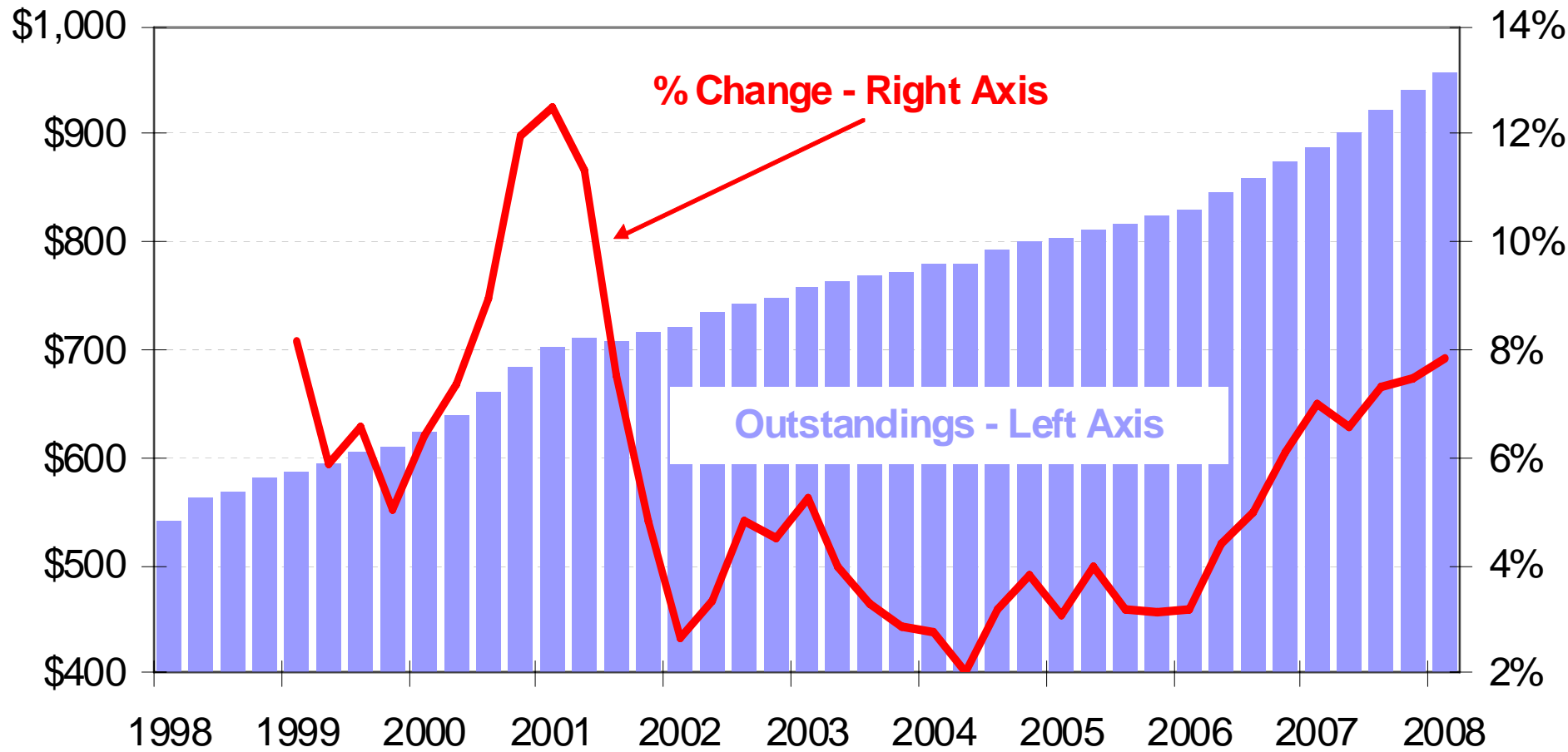


NON-TRADITIONAL FORMS OF FINANCIAL INSTITUTIONS

# Revolving Consumer Credit

Credit Outstanding  
\$Billions

Year Over Year Change



Source: Federal Reserve Board

**Total consumer debt (installment + revolving) = 2.46 trillion as of 6/07**

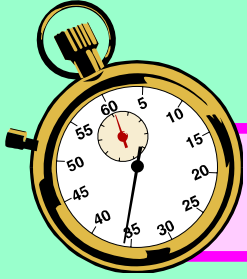
# Credit Cards

## “Let Me Count The Ways”

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- Cash cards
- Smart cards
- Stored value cards
- Secured
- Unsecured
- Gold Cards, Platinum Cards, etc.
- Reward Cards
- Pre-Approved cards
- Affinity Cards

# LIFELINES



**30 Seconds**

**50:50**

**Call a  
Friend**

**Ask the  
Audience**

**If your bill is due on the 1<sup>st</sup> and you have a 15 day grace period before late charges are assessed, your payment will not be late if you pay it on which day?**

**A** 1<sup>st</sup> of the month

**B** 2<sup>nd</sup> of the month

**C** 16<sup>th</sup> of the month

**D** 30<sup>th</sup> of the month

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Level 4



# Credit Card Facts

- 
- The average graduate student has 6 credit cards and one in 7 owes more than \$15,000.
  - A typical credit card purchase will cost 112% more than if cash was used.
  - People using credit cards for fast food usually spend 50% more than if they paid cash. (Total = \$51 Billion in 2006)
  - Average credit card debt among all American households is about \$8,400.
  - The average interest rate on credit cards is 18.9%
  - In 2004 the credit card industry took in \$43 billion in card fees (not interest)

# Cost of Making the *Minimum Payment*

Item	Price	APR	Interest Paid	Total of Paymnts	Years to Pay Off
TV	\$500	18%	\$208	\$708	4.8
Computer	\$1,000	18%	\$495	\$1,495	7.1
Furniture	\$2,500	18%	\$1,355	\$3,855	10.0
Pay More	<b>\$2,500</b>	<b>18%</b>	<b>\$25 extra</b>	<b>\$3,233</b>	<b>4.0</b>
Pay More	<b>\$2,500</b>	<b>18%</b>	<b>\$50 extra</b>	<b>\$3,025</b>	<b>2.7</b>

**Minimum Payment = Greater of \$10 or 4% of Balance**

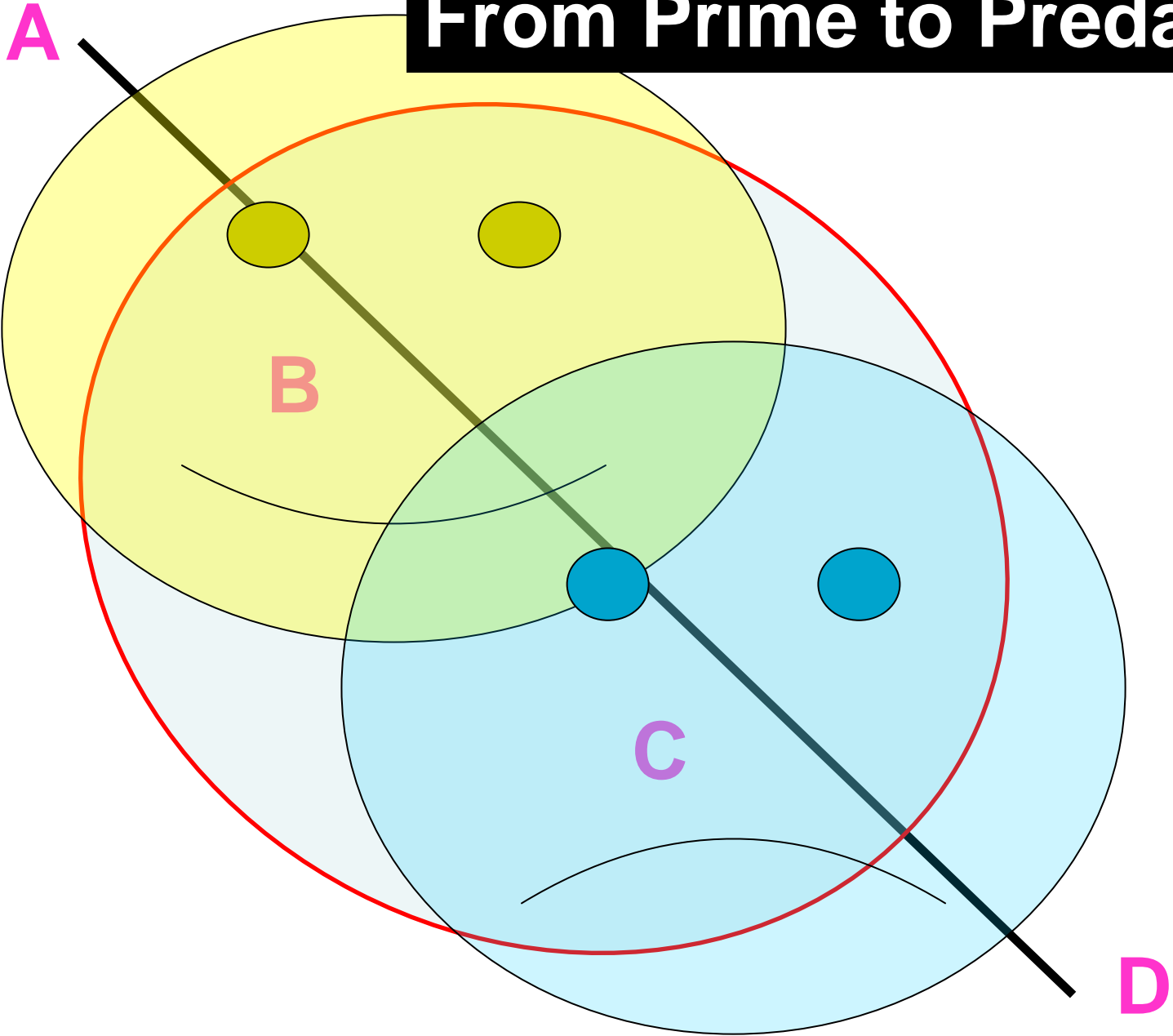


# Proposed Changes to “Unfair” Credit Card Practices

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- ❑ Cannot use the two-cycle billing method to calculate interest
- ❑ Consumer must receive a reasonable amount of time to make payments (bills must be mailed 25 days in advance)
- ❑ Cannot apply monthly payments to unfairly maximize interest charges (pro-rata)
- ❑ Cannot increase the rate on an existing card balance w/o 45 days notice (does not include intro or teaser rates).
- ❑ Universal Default eliminated. Any penalty rate increase must be based on activity on the subject card to have its rate increased.

# From Prime to Predatory



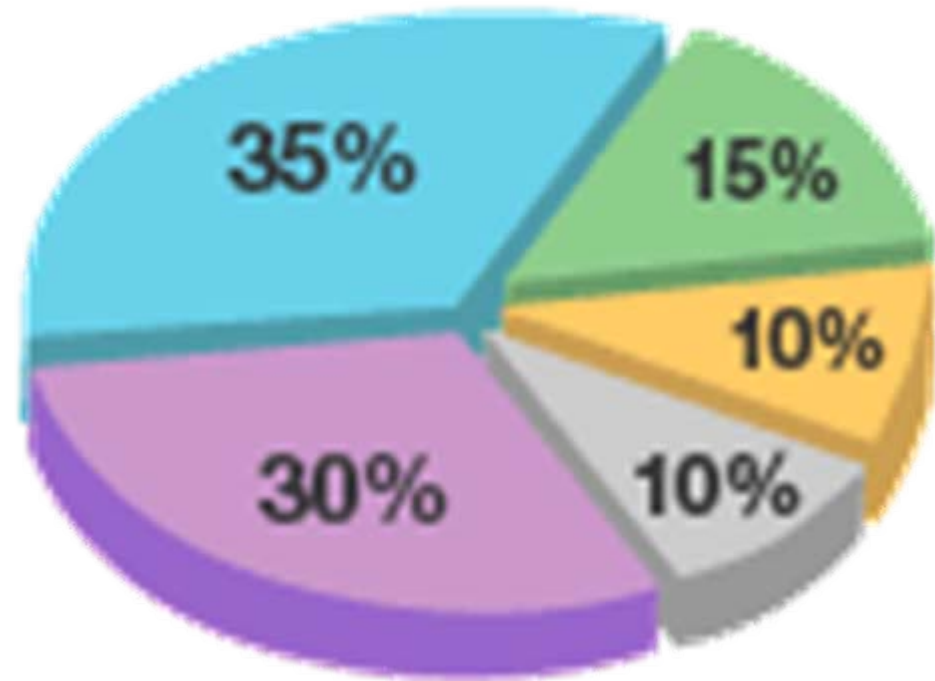
# What's a FICO® Score?


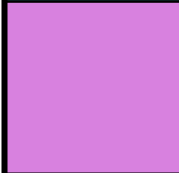





**36 Month Auto Loan**

<b>FICO® score</b>	<b>APR [?]</b>	<b>Monthly payment</b>
720-850	6.059%	\$761
690-719	7.625%	\$779
660-689	8.608%	\$790
620-659	10.997%	\$818
590-619	14.306%	\$858
500-589	15.203%	\$869

# Score Breakdown



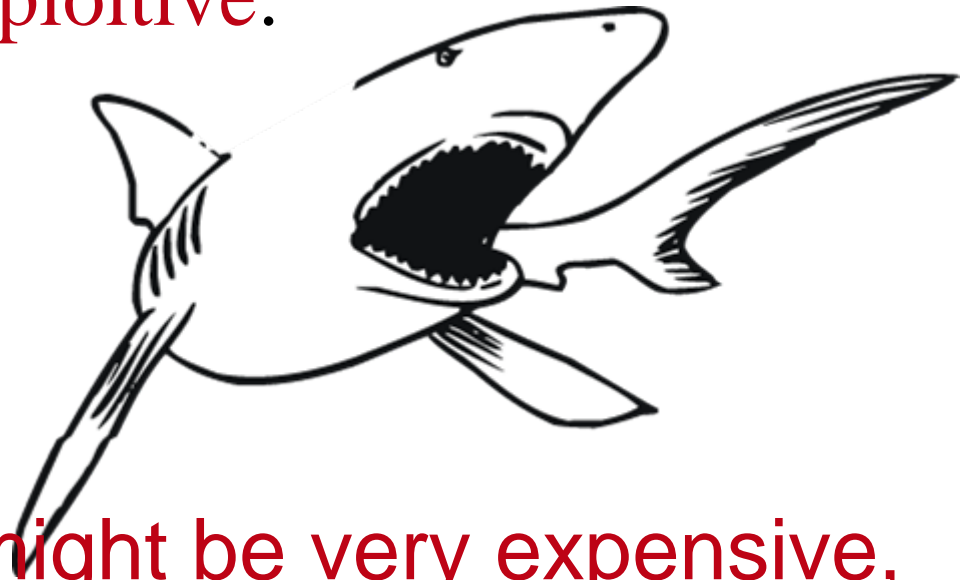
	<b>Payment history - 35%</b>
	<b>Amounts owed - 30%</b>
	<b>Types of credit used - 10%</b>
	<b>New credit - 10%</b>
	<b>Length of credit history - 15%</b>

# Predatory Lending

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Occurs when companies offer loan products, using **deceptive** and **exploitive**:

- ❑ Marketing tactics.
- ❑ Collection practices.
- ❑ Loan terms.



Although a loan might be very expensive,  
that does not mean it is predatory.



You've seen the commercials... now get  
America's #1\* Free Online Credit Report!

See it online - print it out if you'd like!  
Includes your FREE Experian<sup>®</sup> Credit Score!

\*According to comScore MediaMetrix 2.0

When you order your free report here, you will begin your free trial membership in Triple Advantage<sup>SM</sup> Credit Monitoring. If you don't cancel your membership within the 7-day trial period, you will be billed \$14.95 for each month that you continue your membership.

IMPORTANT INFORMATION

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ConsumerInfo.com, Inc. and Freecreditreport.com are not affiliated with the annual free credit report program. Under a new Federal law, you have the right to receive a free copy of your credit report once every 12 months from each of the three nationwide consumer reporting companies. To request your free annual report under that law, you must go to [www.annualcreditreport.com](http://www.annualcreditreport.com).

Check your Report

See who's been checking your credit. Look for potential inaccuracies and unauthorized activity.

We'll close Experian<sup>®</sup> Equifax<sup>®</sup> TransUnion<sup>®</sup> Credit Reports every day.

Your Score<sup>™</sup>

Your scores usually mean interest rates on new which could save you

<sup>™</sup>Monitoring with Experian begins within 48 hours of enrollment in your free trial. Monitoring with Equifax and TransUnion takes approximately 4 days to begin, though in some cases cannot be initiated during your trial period. You may cancel your trial membership any time within 9 days of enrollment without charge.





# WWW.ANNUALCREDITREPORT.COM

877-322-8228

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- Effective for all New England states beginning September 1, 2005
- Entitled to one report free each year, from each of the 3 major bureaus
- Use the above web site to order one credit report every 4 months from one of the major bureaus and you will have a rolling record of most of your credit activity (for example – **Experian** in January, **TransUnion** in May, **Equifax** in September)
- Effective way to monitor for Identity Theft

# To Your Credit

## What is NOT on your credit report

- Account Balances (savings & checking)
- Race, Gender, Religion or National Origin
- Medical History
- Purchases Made
- Business information
- Income
- Driving Record



Attention Home Owners Need Money?

# REFINANCE NOW!!

\* Pay off Debt and Save hundreds if not thousands per month!!!

**1.99%**  
ARM  
AVAILABLE

**\*FREE**

**APPRAISAL**

Received via fax on 10/25/07

NO PAYMENTS  
TIL' 2008

LOAN	PAYMENT
\$300,000	\$1,107.36
\$500,000	\$1,845.60
\$700,000	\$2,583.84
\$1,000,000	\$3,691.20
\$1,000,000+	call for payment

## \*PROGRAMS

- Debt Consolidation\*
- 100% Financing\*
- Bankruptcy OK\*
- Foreclosure OK\*
- Unlimited Cash Out\*
- No Income Verification\*

Many other programs available. Please call for details.

30 YEAR FIXED  
AS LOW AS  
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RATE  
APR 6.00%

Read between the  
lines in all ads.

COMMERCIAL LOANS AVAILABLE  
ASK ABOUT OUR CREDIT RESTORATION MORTGAGE LOANS

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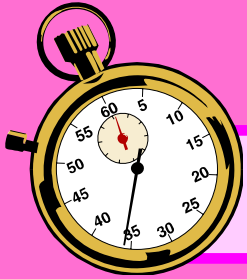
\* Upon loan closing. On approved loan programs only. Restrictions may apply.  
Rates and programs are subject to change without notification.

If you received this fax in error, and would like to be removed from our database. Call toll-free 800-993-5317

# Identifying Levels of Subprime

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>Predatory</b>
<b>FICO Credit Score</b>	<b>High 700's</b>	<b>&lt;720-650</b>	<b>&lt;670-550</b>	<b>550-400</b>	Bad Credit Low Income Minority/Immigrant Elderly
<b>Lates, Collections, Bankruptcy</b>	<b>0</b>	<b>1-3</b>	<b>2-4, CO, Collect</b>	<b>Multiple</b>	“Bad Credit OK” “No verification”
<b>Fees</b>	<b>Known @ Appl</b>	<b>More, Higher</b>	<b>Borders on Excessive</b>	<b>AMAP</b>	“No Fees” “No Problem” “Free”
<b>Rates</b>	<b>Standard Published</b>	<b>+1-5 points</b>	<b>5+ ?</b>		“It will only cost you \$ per week”
<b>APR</b>	<b>Disclosed</b>	<b>Disclosed</b>	<b>Maybe (subject to T&amp;C)</b>		Not Mentioned

# LIFELINES



**30 Seconds**

**50:50**

**Call a  
Friend**

**Ask the  
Audience**

Michael took a one month title loan on his car for \$500 at an interest rate of 20% per month. He could only manage to pay just the interest for a year, which totaled \$1,200, so his Total of Payments was \$1,700. What was his APR?

**A**

**20%**

**B**

**140%**

**C**

**240%**

**D**

**340%**

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Level 5

LTO



Ordinary people. Extraordinary results. [\(+\)](#)

## Negative items on your credit report? Don't worry.

We have repaired thousands of credit reports, and chances are good we can repair yours, too.



- ✓ LATE PAYMENTS
- ✓ COLLECTIONS
- ✓ CHARGE OFFS
- ✓ BANKRUPTCIES
- ✓ JUDGMENTS
- ✓ CLOSED BY GRANTOR
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	REGULAR	YOUR PRICE	YOU SAVE
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Enrollment fee	<del>\$99.00</del>	<b>\$69.00</b>	<b>\$30.00 (30%)</b>
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Monthly fee	<del>\$39.00</del>	<b>\$29.00</b>	<b>\$10.00 (25%)</b>
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# Your Approval is Guaranteed! Regardless of your credit.



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## Our Guaranteed Approval Program

Unlike other financial companies, we don't check your credit and measure you based on some score. Instead, all we ask is that you build a little credit history with us by paying a small, one-time initial payment and 52 weeks of layaway payments. However; once you've paid as agreed for just 9 consecutive weeks, we'll offer to finance\* the balance of your purchase price, order your computer and have it shipped directly to your home.

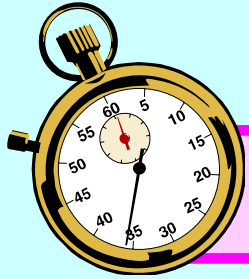
**It's that simple.**

[Learn how you can get one here](#)

# Pay Yourself First

## Saving \$5 a Day

	No Interest	5% Daily Compounding
Year 1	\$1,825	\$ 1,871
Year 5	\$ 9,125	\$ 10,366
Year 10	\$ 18,250	\$ 23,677
Year 30	\$ 54,750	<b>\$ 127,077</b>



**30 Seconds**

## LIFELINES

**50:50**

**Call a  
Friend**

**Ask the  
Audience**

**When you are looking for the best return on a savings account, you should compare which number?**

**A Annual Percentage Rate**

**B Dividend Yield**

**C Interest Rate**

**D Annual Percentage Yield**

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# The Glue

- Improving financial understanding gives people the knowledge, skills and the tools to make wise financial decisions, and acquire, build and retain assets
- More important now than ever, because
  - of Increased Complexity of products
  - of Aggressive Marketing of products
  - Your future will depend a lot on your level of financial knowledge



# Contact Information

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