Slide 1: Financial Literacy: Borrowing and Saving Basics

Slide 2: Objectives

- Define borrowing and saving terms and concepts.
- Identify the difference between interest rates and annual percentage rates.
- Identify key borrowing ratios.
- Identify best practices related to borrowing and saving that can impact financial stability and wealth.

Slide 3: Money

- What you do with your money directly influences how you live (e.g., the food you eat, where you reside, and the form of transportation you use)
- When it comes to money matters, discipline is a key to building financial security and wealth

Slide 4: Lending Money Is a Business

- When you borrow money, the company's goal is to make a profit
- Prior to a loan appointment, do the following:
    - Review your credit history
    - Obtain your credit score
    - Know how much you need to borrow
    - Compare interest rates

Slide 5: Principal

- Principal is the base amount of money you borrow
- When you repay the loan in installment payments, each payment is made up of two parts:
    - Principal
    - Interest

Slide 6: Interest

- Fee you pay a lender to borrow money

OR

- Fee you are paid when you put money into a savings account

Slide 7: Credit Utilization

- Specific to credit cards
- Ratio of your credit card limit and how much of it you have used
- Ideal credit utilization = 30% or lower

Slide 8: Ways to Improve Credit Utilization

- Pay off credit card balances
- Put balance alerts on your cards
- Increase credit card limit, but still maintain a 30% or less utilization rate

Slide 9: What Determines Your Credit Score?

Let's look at what factors go into calculating a credit score. The greatest factor, 35%, comes from whether you pay your bills on time; that is, do you make at least the minimum payments by the due date. The second greatest factor, 30%, is based on how much you owe. Other factors that influence your credit score include length of credit history, new accounts, and type of credit used

Slide 10: Annual Percentage Rate (APR)

- APR is the annual charge borrowers pay to lenders for a loan
- APR is the advertised interest rate plus any fees lenders require borrowers to pay when taking out a loan
- APR should be the focus of borrowers instead of interest rate

Slide 11: Finance Charge

- A finance charge is the total cost of all the fees you pay when borrowing money
- Factors that impact fees include the following:
    - Interest rate
    - Service charges
    - Length of loan period

Slide 12: Debt-to-Income Ratio

- 36% or lower is ideal
- Monthly debt payments/monthly gross pay
    - $2,000 of monthly debt payments (rent/mortgage, car, loans, credit cards)
    - $5,000 monthly gross pay
    - $2,000/$5,000 = 40% debt-to-income ratio

Slide 13: Borrowing Basics Recap

- What are some ideas to keep in mind when borrowing money from lender?
- What are some practices you can use to improve your chances of paying a low interest rate when you borrow money?
- What borrowing concepts do you recall and can you explain?

Slide 14: Saving Money

- Saving is a precursor to investing
- Reasons to save
    - Emergency fund
    - Accumulate cash for down payments on large purchases
    - Pay for short-term goals

Slide 15: Cash Equivalents

- Accounts that can be converted to cash without losing value
    - Savings accounts
    - Certificates of deposits (CDs)
    - Money market deposit accounts

Slide 16: Savings/Share Account

- Deposit accounts that earn interest and have a low minimum balance to open or maintain
- It is important to bank with an FDIC or NCUA

Slide 17: Certificate of Deposit (CD)

- CDs are deposits of money you agree to leave in a bank or credit union for a predetermined length of time at a set interest rate

Slide 18: Money Market Deposit Account

- Operates like a checking account with some restrictions
- Limitations
    - Must have a minimum deposit
    - Limit on number of checks written each month
- Pays more interest than savings account

Slide 19: Compound Interest

- Interest paid on the principal and interest amount each compounding period

For example, on January 1 of any year, you deposit $100 in a savings account. The interest rate paid on that deposit is 3%. At the end of a period, the bank adds $3 to your account to represent the interest your $100 deposit has earned. The account value is now $103. For the next period, you will earn 3% on the principal and the interest from the last period. At the end of the second period, the bank adds $3.09 to your account to represent the interest your $103 has earned. The account value is now $106.09. If we leave that $100 in the bank for 5 years at the 3% interest rate, the value at the end of 5 years is $115.93.

Slide 20: Compounded Interest Examples

Those who use compound interest to their advantage can put their money to work for them. For example, compare the savings account interest rates for local federally insured banks with the rates of federally insured online banks. If the interest rates are the same for local and online banks but the compounding periods are different, choose the account that has the most frequent compounding period.

Slide 21: Annual Percentage Yield (APY)

- APY is the percentage that is based on the total interest you would receive for 365 days given an institution's annual simple interest and compounding frequency

Slide 22: Rule of 72

- A formula used to calculate the number of years it takes to double money
    - 72/ annual interest rate
- Example: 72/8 (% interest rate) = 9 years

Slide 23: Saving Basics Recap

- What savings terms/concepts do you recall and can you explain?

Slide 24: Financial Planning

- Use your understanding of borrowing and saving to create a plan to achieve your goals

Slide 25: Review of Objectives

- Define borrowing and saving terms and concepts.
- Identify the difference between interest rates and annual percentage rates.
- Identify key borrowing ratios.
- Identify best practices related to borrowing and saving that can impact financial stability and wealth.

Slide 26: Financial Literacy: Borrowing and Saving Basics