Making the Most of Your Money

A Handbook for Young Adults

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Let's Start from the beginning…

Right now, your source of income might be a weekly allowance, picking up some odd jobs or maybe a part-time job. You aren't a millionaire, but you have money to spend on yourself, for things like CDs, movies, food and clothes. When you're out looking for ways to spend your hard earned cash, you are bombarded by choices. Everywhere you look there's an advertisement tempting you to empty your pocketbook. Stop. Think about how much you can afford to spend now and how much you will want to spend later.

There are ways to manage your money. Spending and saving wisely now will help you with bigger purchases later, such as a car or education. This handbook is a guide to managing your money, regardless of how much you earn. It starts with budgeting and setting goals. It explains how a savings and/or checking account can benefit you. Finally, it covers the basics of purchasing with credit, how to earn a good credit record and how credit can work for you.

Creating a Budget:
The first step is determining what you've got to work with. This will help you figure out how much money you can spend. Whether penny-pincher or big spender, everyone needs a budget.

A budget is a list of all the items you spend your money on each month, as well as how much money you want to save for special, larger purchases. With a budget, you determine how much you can afford to spend on everything from food to clothing, from weekend entertainment to gas for the car, plus gifts and all other activities you spend money on each month. To create a budget, first take a look at the total amount of money you expect to earn each month.

For each month, keep this record of all the money you spend and save. At the end of the month, compare your total spending with your earnings. Do they match up? Are you spending more than you earn? Do you earn more than you spend? Knowing the answers to these questions is the start of managing your money and establishing a budget that works for you.

A good budget helps you balance the amount of money you earn with the amount of money you spend so that you will always have money leftover to save. If you spend more than you earn, rethink your budget. Evaluate your spending habits. Renting a movie, rather than going to a theater, limiting the number of times you eat out, carrying snacks with you, or walking instead of driving are options that may help you cut back on spending and increase your savings.

Budget Worksheet

MONEY EARNED

Allowance	$ ________	per month
Part-time job	$ ________	per month
Odd jobs	$ ________	per month
Misc. income	$ ________	per month

TOTAL MONEY EARNED $ ________ per month

MONEY SPENT

Food:

Vending Machines	$ ________	per month
Fast food	$ ________	per month
At the mall	$ ________	per month
Eating out	$ ________	per month
Subtotal	**$ ________**	**per month**

Entertainment:

Movie theater	$ ________	per month
Movie rental	$ ________	per month
CDs	$ ________	per month
Sporting events	$ ________	per month
Concerts/Plays	$ ________	per month
Misc.	$ ________	per month
Subtotal	**$ ________**	**per month**

Transportation:

City bus or subway	$ ________	per month
Gas for car	$ ________	per month
Parking	$ ________	per month
Subtotal	**$ ________**	**per month**

Money Spent on Gifts:

For friends	$ ________	per month
For family	$ ________	per month
Subtotal	**$ ________**	**per month**

Personal Items:

Clothing	$ ________	per month
Haircuts	$ ________	per month
Make-up	$ ________	per month
Subtotal	**$ ________**	**per month**

Miscellaneous Items:

Cell phone	$ ________	per month
Pager	$ ________	per month
Emergencies	$ ________	per month
Subtotal	**$ ________**	**per month**

TOTAL MONEY SPENT $ ________ per month

Now, decide how much you want to save.

MONEY SAVED

Savings for short-term goals (i.e. DVD Player)	$ ________	per month
Savings for long-term goals (i.e. Car)	$ ________	per month

TOTAL MONEY SAVED $ ________ per month

Why is saving so Important?

"Spend it if you've got it." It is easy to think this way now, but spending all you earn can cause roadblocks in the future. You probably have goals such as going to college, owning your own car, or living in your own apartment. Tuition, car payments and rent are all major expenses. You can prepare for them by managing your money wisely now to conquer these goals in the future.

Begin by setting short-term and long-term goals for the savings portion of your budget. A short-term goal might be a stereo or a concert. A long-term goal might be a car or further education. You may be saving up for a short-term goal already. Always think ahead to your long-term goals, no matter what your short-term goals are, to make sure you don't blow all your savings on impulse buys.

Savings Accounts:

If you don't have a savings account, stop by your local financial institution and ask about opening one. If you are under 18 you may need an adult to cosign the account with you.

When you go to the bank or credit union to open your account, learn about the features of the savings account:

Will the account earn interest?

Banks and credit unions pay you interest for money you have on deposit with them. The more money you have in a savings account, the more interest you earn.

Is there a minimum balance required?

The higher the minimum balance, the more money the bank locks away and the less you have access to. A low or no minimum balance gives you more or even complete access to your savings.

Will you receive a cash card with the account?

A cash card enables you to make deposits, withdrawals and transfers electronically at automated teller machines (ATMs). When you make any transaction with your cash card, you will need to record it in your account register to keep it current. Be aware that your account balance printed on your ATM receipt may not be as current as your account register balance. (See section on cash cards for more information).

What fees will you be charged?

Every institution is different. You could be charged for withdrawing below your minimum balance or for having too many transactions on your cash card in a month. You want the savings account that works best with your long-term and short-term savings goals.

Checking Accounts:

You may be interested in opening a checking account if you find yourself spending money more frequently. Again, ask your banker the terms and features of the checking account. You want an account that works well with your spending habits. As with a savings account, if you are under 18 you may need a cosigner.

Along with a checking account comes additional responsibility:

- You need to keep track of each transaction you make including all checks, deposits and withdrawals.

- You will need to record the check number or transaction and the amount in your check register.

- Carelessness with your checkbook can lead to financial trouble. To keep your checkbook on track with the bank, always balance your check register with your monthly bank statement.

What is a cash card?

Along with a checking and/or savings account usually comes a cash card. A cash card lets you make deposits, withdraw cash and electronically transfer funds from one account to another at an ATM.

Cash cards are convenient, but must be guarded carefully. To prevent others from using your lost or stolen card, your financial institution assigns a Personal Identification Number (PIN) to it. Entering your PIN at the point of transaction verifies that you are the authorized cardholder. The following guidelines will help you manage your cash card:

- Memorize your PIN.
- Don't write your PIN on your card, or store it with your card.
- NEVER give your PIN to anyone.
- Record all of your ATM transactions.
- Report a lost or stolen card to your financial institution.
- Take note of and record any monthly usage fees.

What is a debit card?

A debit card is a cash card and checkbook in one. Debit cards work as a cash card at ATMs, and you can also use your debit card make purchases at millions of businesses that accept major credit cards. To make a purchase with a debit card, present the card and sign the receipt. The purchase is automatically deducted from your checking account, just like a check. Remember, you must save your receipt and record the transaction in your check register to maintain an accurate balance.

How do a debit card and a credit card differ?

There is a significant difference between a debit card and a credit card. A debit card automatically deducts purchases from your checking account, so whatever you buy with your debit card is paid for. When using a credit card, you are actually taking out a loan for the amount of the purchase, which you can repay all at once or over time through monthly payments. Your card issuer sets a limit on the amount you can borrow. When you purchase something with a credit card, the credit grantor will charge you interest based on the annual percentage rate (APR) for the money borrowed. Most credit grantors report all your payments to a credit bureau, which keeps track of your payment history.

How do I establish credit?

As a first step, go to a local department store and fill out an application for a charge account. Generally, retail store cards are easier for first-time credit users to get and most do not charge an annual fee. However, these cards also tend to have a higher APR, meaning you end up paying more interest on unpaid balances. When you apply for a retail store card, ask if your payments will be reported to a credit bureau. If the answer is “yes,” your credit history will begin to be established.

What should I look for in a credit card?

As you build your credit record, you may decide to apply for a major credit card, such as VISA or MasterCard. As mentioned before, a credit card is a way for you to “borrow” money on a short-term basis to make purchases. The card issuer – or credit grantor – agrees to pay for the item and you agree to pay the card issuer back. Before approving you for a card, the credit grantor reviews your application to verify your ability to pay back the loan. The application will ask where you are employed, if you have a savings account and possibly for a cosigner if you are under 18 years of age. (The cosigner is responsible for repaying your debt if you can’t). Apply for a credit card that best suits your finances and purchases. When deciding what card to apply for, ask yourself the following questions:

- How much interest will you be charged on unpaid balances? First time credit users will generally be charged a higher APR than people who have established credit. As a first-time credit user, you are more of a risk to the credit grantor, so making purchases with credit may be more expensive for you. Many credit cards offered to first-time credit card users charge as much as 18-21 percent APR. Remember that the APR is calculated annually. To figure out how much interest will be charged to any of your unpaid monthly balances, divide the APR by 12. For example, if the APR is 19 percent, each month your unpaid balance will increase by 1.58 percent in interest charges. If you expect to pay less than the full amount on your bill, look for a credit card with a lower APR if possible. If you plan to pay your balance in full each month, within your grace period, the APR will not affect your balance.

- Is there a cost to carry the card? Find out if the credit card charges an annual fee. If so, the annual fee is charged to your card once a year, whether or not you make any purchases. More and more credit cards do not charge an annual fee. If you intend to pay your bills in full each month, a low annual fee will be more important than a low APR.

- Is there a monthly minimum finance charge? On small balances, your monthly percentage rate on the amount owed could be just pennies. Most cards have a minimum finance charge of 50 cents; no matter how small the balance is that you carry.

- Other Fees? Are there any other charges associated with the credit card? For example, will you be charged for paying your bill late? Will a late payment reflect negatively on your credit rating?

- How does my ability to pay affect my ability to get credit? Every payment you make on your credit card is recorded with a credit bureau. The credit bureau records whether you pay just the minimum balance, if your payment was received on time, and/or if you have missed any payments. When you apply for credit in the future, the credit grantor will retrieve your credit record from the credit bureau to determine your ability to pay back debts. By making your payments on time each month – even if you pay only the minimum – you will maintain a good record with the credit bureau, and you’ll have an easier time getting credit in the future.

Now that I have a credit card, how does it work?

Along with being accepted for a credit card, the credit grantor will give you a credit limit. This is the maximum amount of money you can borrow from the credit grantor in one billing period. When the bill comes, you will see “minimum amount due.” This is the minimum amount that must be paid by the due date. Paying more than the minimum due will help reduce your finance charges on your next statement.

Here is an example of a purchase made with a credit card:

Card Conditions: $150 credit limit

APR of 18% or 1.5% per month minimum finance charge of .50

Beginning of Month 1:
You make a $50 purchase with the card

$ 150	Available Credit Limit
$ 50	Purchase
$ 100	Available Credit for Month 2

End of Month 1: The bill comes and the minimum amount due is $12. You pay $12.

$ 50	Purchase
- $ 12	Paid
$ 38	Remaining Unpaid Balance
$ 112	Available Credit for Month 2 ($150-$38 = $112)

Beginning of Month 2:
No additional purchases are made.

End of Month 2: The bill comes. You still have a remaining balance from the previous month. This balance is charged the monthly portion of your 18% APR which is 1.5%.

$ 38	Remaining Unpaid Balance
+ $0.57	Monthly Percentage Rate of 1.5% is $ 38.57 charged on your unpaid balance

You now owe $38.57

The minimum payment for Month 2 is $12. You Pay $12.

$ 38.57	Amount you owe
- $ 12	Amount Paid
$ 26.57	Remaining Unpaid Balance

Beginning of Month 3:

$ 150.00	Original Credit Limit
- $ 26.57	Amount you owe at close of Month 2
$ 123.43	Available Credit for Month 3

For month three, you can either pay the balance in full or pay the minimum balance again and be charged interest for the remaining unpaid balance. Once you do not have any remaining unpaid balance on your bill, no matter how many purchases you make in a month, you won't be charged interest.

Is the purchase worth paying interest?

If you can only afford to pay the minimum balance each month, you need to decide if your purchase is worth spending the extra money for interest on your purchase. While our example illustrated only a small interest charge, keep in mind that this can add up, especially if you have larger balances that are carried over from month to month. Most credit cards offer a 21 to 30 day grace period. This is time allowed between the end of the billing cycle and the balance due date where no interest is charged. Once the due date has passed, you will be charged interest on the unpaid balance. Remember, when you pay your bill in full within your grace period you won't have any finance charges or interest to pay.

Before making a purchase on credit you need to take a minute and ask yourself if your purchase is worth the extra interest charges and how the purchase will affect your budget.

What about those credit cards that offer cash advances and other incentives?

If you use a credit card to get a cash advance, you'll receive cash much like using your cash card, but the amount will be charged to your credit card account. Be aware that there is no grace period on a cash advance. Interest on a cash advance starts from the time the transaction is made, so this can be a very expensive way to borrow money.

Many credit card issuers also offer incentive-bearing cards. These are cards that will "pay you cash back," "earn you frequent flyer miles," or "get you started with buying a car."

These types of cards are usually not offered to people just starting to establish credit. However, once you've established a good credit history, be sure you are using these types of credit cards for the right reasons and not just for the card's incentives.

How do I get a car loan?

A car loan is an installment loan. An installment loan lets you borrow all the money you need at once, then pay it back over a set period of time. If your loan is "secured" this means that you will have to offer collateral. Collateral is property the lender has a right to take if you don't repay the loan. For example, collateral for a car loan would be the title to your car until you have paid off the loan. Collateral has to be worth at least as much as the loan.

With an installment loan, each of your monthly payments includes both interest and principle (the amount you originally borrowed). You'll know exactly what your payments are and when the loan will be paid off.

A loan is essentially "buying" money, and just like any other major purchase, you need to shop around. Be sure to compare three things when looking for a loan that's right for you:

- Annual Percentage Rate or APR – You will pay interest charges based on the APR on your loan, just as you would for a credit card. This is the interest rate or user fee for each year you borrow the money.

- Total Finance Charge – This is the total dollar amount the credit will cost you over the term of the loan. It includes interest and any other charges such as loan initiation or credit check fees. It's expressed in dollars: "$714.36 for a $4,000 three-year car loan at 11 percent APR."

- Monthly Payment – On your loan, you will have a set monthly payment that is part interest and part principle. Using the above example, you can expect to pay $130 a month for three years.

Remember, your job is to consider the various options and decide what makes sense to you. Don't make a quick decision based solely on the monthly payments. You want to buy the least expensive credit, so take your time and focus on the entire cost of the loan.

Generally speaking, the shorter the term of the loan and the more you pay on a down payment, the lower the APR and the less expensive the credit.

Here's a $4,000 loan's actual cost (the cost varies depending on the interest rate):

3 years	**11% APR**	**12% APR**	**13% AP**	**14% APR**
Monthly Payment	$130.96	$132.84	$134.76	$136.72
Finance Charge	$714.36	$782.88	$851.92	$921.56
Total Cost	$4,714.36	$4,782.88	$4,851.92	$4,921.56

A longer term lowers the monthly payments, but increases the total cost.

4 years	**11% APR**	**12% APR**	**13% APR**	**14% APR**
Monthly Payment	$103.40	$105.32	$107.32	$109.32
Finance Charge	$962.36	$1,056.08	$1,150.88	$1,246.88
Total Cost	$4,962.36	$5,056.08	$5,150.88	$5,246.88

Whichever loan you choose, read all of the conditions before signing. You must be able to pay your monthly payments. Remember, even though the title to your car is in your name (and co-signer, if any) the loan grantor owns rights to your car. If you don't make your payments, they can repossess the car to pay off the loan. Just like credit cards, paying the amount due on time is the perfect start to a great credit record.

Just a reminder…

Managing your money takes responsibility. If you stick to your budget, save money each month for your short and long-term goals and set aside money for your credit purchases each month, you'll be amazed at how easy it can be to have your money work for you.

On Track to Success:

- Stick to your budget.
- Set short and long-term financial goals.
- Put your extra cash in a savings account.
- Understand the difference between a debit card, charge card and a credit card.
- When applying for a credit card, start small and work your way up. Take the time to establish a solid payment history.
- Take your time when shopping for a car loan. Look at more than just monthly payments.
- Managing your money wisely now can really make the difference in the future.

Now let's see what you learned…

1. A debit card loans you money for purchases.

   a. True b. False

2. When making an ATM transaction, you must__________the transaction.

   a. Deduct c. Take out
   b. Record d. Deposit

3. What is the goal of a budget?

   ____

   ____

4. A car loan with 11 percent APR over 3 years will cost more than a loan with 11 percent APR over 4 years.

   a. True b. False

5. Interest charges affect the _______________balance on a credit card.

   a. Total c. Unpaid
   b. Monthly d. Minimum

6. You pay interest with a savings account.

   a. True b. False

7. By not paying the full balance on your credit card, purchases cost you more.

   a. True b. False

8. A car loan is a(n)_________loan.

   a. Single pay c. Secured
   b. Unsecured d. All of the above

9. A budget plan shows you where a portion of your money goes.

   a. True b. False

10. When opening a savings account ask if….

    a. The account has a minimum balance requirement
    b. The account earns interest
    c. Other fees are associated with the account
    d. All of the above

11. Balance your checkbook with your bank statement only when you are unsure of your balance.

    a. True b. False

12. Always keep in mind…

    a. Your short-term goals
    b. Your long-term goals
    c. Neither
    d. Both

13. Your______connects your bank account with your cash card.

    a. APR c. CDS
    b. PIN d. UPC

14. You may need a cosigner to open a bank account.

    a. True b. False

15. You should keep this handbook for a reference to managing your money as your spending and saving habits grow.

    a. True b. False

Answers:
1.b, 2.b, 3. To plan your spending and keep track of your savings., 4.b, 5.c, 6.b, 7. a, 8.c, 9. b, 10.d, 11. b, 12. d, 13. b, 14.a, 15.a

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