

What are some of the top causes of debt? Type your answer in chat



Living Well with Inflation

Managing Certain Kinds of Debt

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Disclaimer

This presentation series should not be construed as legal or financial advice. If professional assistance is required, the services of a competent professional should be sought.

Disclaimer

Today's presentation is education, not advice.

What Are the "biggies" When It Comes to Debt?

Credit Cards

Auto Loans

Divorce

Financial Ignorance

Medical Expenses

Saving Habits

Less Income/More Expenses

Mortgage



Today's Topic

- Discuss credit card debt
- Auto loan debt
- Mortgage loans



Effects of Inflation Over Time

ITEM	1980	1990	2000	2010	2020	2030
Postage stamp	\$.16	\$.25	\$.33	\$.44	\$.55	?
Loaf of bread	\$.51	\$.70	\$.92	\$1.36	\$2.47	?
Gasoline (1 gal)	\$.97	\$1.35	\$1.58	\$2.86	\$2.55	?
Automobile	\$6,900	\$16,180	\$18,775	\$27,500	\$37,851	?
House (median new home)	\$64,000	\$122,900	\$165,200	\$198,400	\$280,600	?

Source: Next Gen Personal Finance

Examples of Inflation

MEETING DATE	RATE CHANGE	TARGET RANGE
March 15-16, 2022	+25 basis points	0.25-0.5 percent
May 3-4, 2022	+50 basis points	0.75-1 percent
June 14-15, 2022	+75 basis points	1.50-1.75 percent
July 26-27, 2022	+75 basis points	2.25-2.5 percent
Sept. 20-21, 2022	+75 basis points	3-3.25 percent

Source: Fed's board of governors

Interest Rates Effect Finances



Mortgage rates go
up



Home sales go
down



Auto loan rates go
up



Credit card
rates go up



Saving rates go up
(a little)

43% of all U. S. families spend more than they earn each year. In fact, most spend about 10% more than they earn -that's \$1.10 spent for every dollar earned



What is Credit/Debt?

- A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest.
- Key term is “interest”
 - When you borrow you almost always pay back much more than you received.



When is it ok to go into debt?

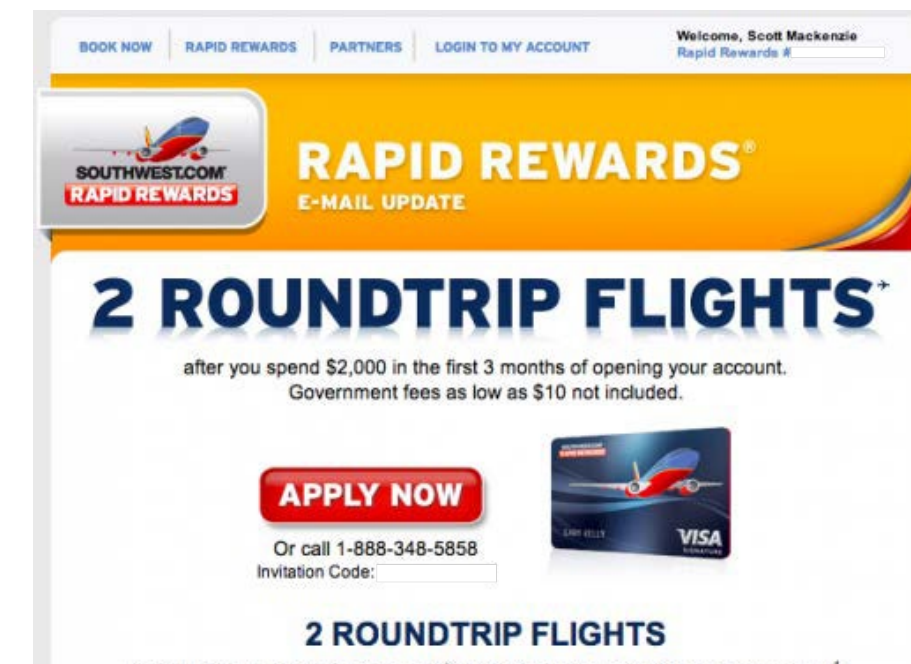
“Debt incurred for education, a modest home, or a basic automobile may be necessary to provide for a family.”

-- Robert D. Hales



Should you have at least one credit card?

- Emergencies (unexpected repairs, etc.)
- Reservations (hotels, rental cars, etc.)
- Convenience (online purchases, record of all transactions, etc.)
- Cash flow and timing (gives you 25 days of free money)
- "Free services" (airline miles, extended warranties, etc.)
- Builds credit score



What are some reasons to avoid credit cards?

Increased spending: (up to 100% more than cash)

Losing track of spending

The “pay pain” is removed

Be mindful of department store credit cards, many have higher interest rates than all purpose credit cards

Interest and other fees

- 25% interest APR or higher
- Annual fees
- Late payment fees

Obligations on future income



So how do you stay out of plastic debt and play by the rules?

- Pay off the credit card on time (or earlier) every month, make more than the minimum payment
 - Avoids interest/late payments, focus on paying down debt, not earning points or cash
 - Improves credit score
 - Consider transfer to a lower interest rate card
- Keep track of spending as you go. Absolute must to watch interest rate
 - Avoids overspending/consumer debt
 - Mint.com is helpful
- If you can't do these things, then perform “plastic surgery” and cut up or shred your cards!
- Stop using your credit card and switch to cash or debit card





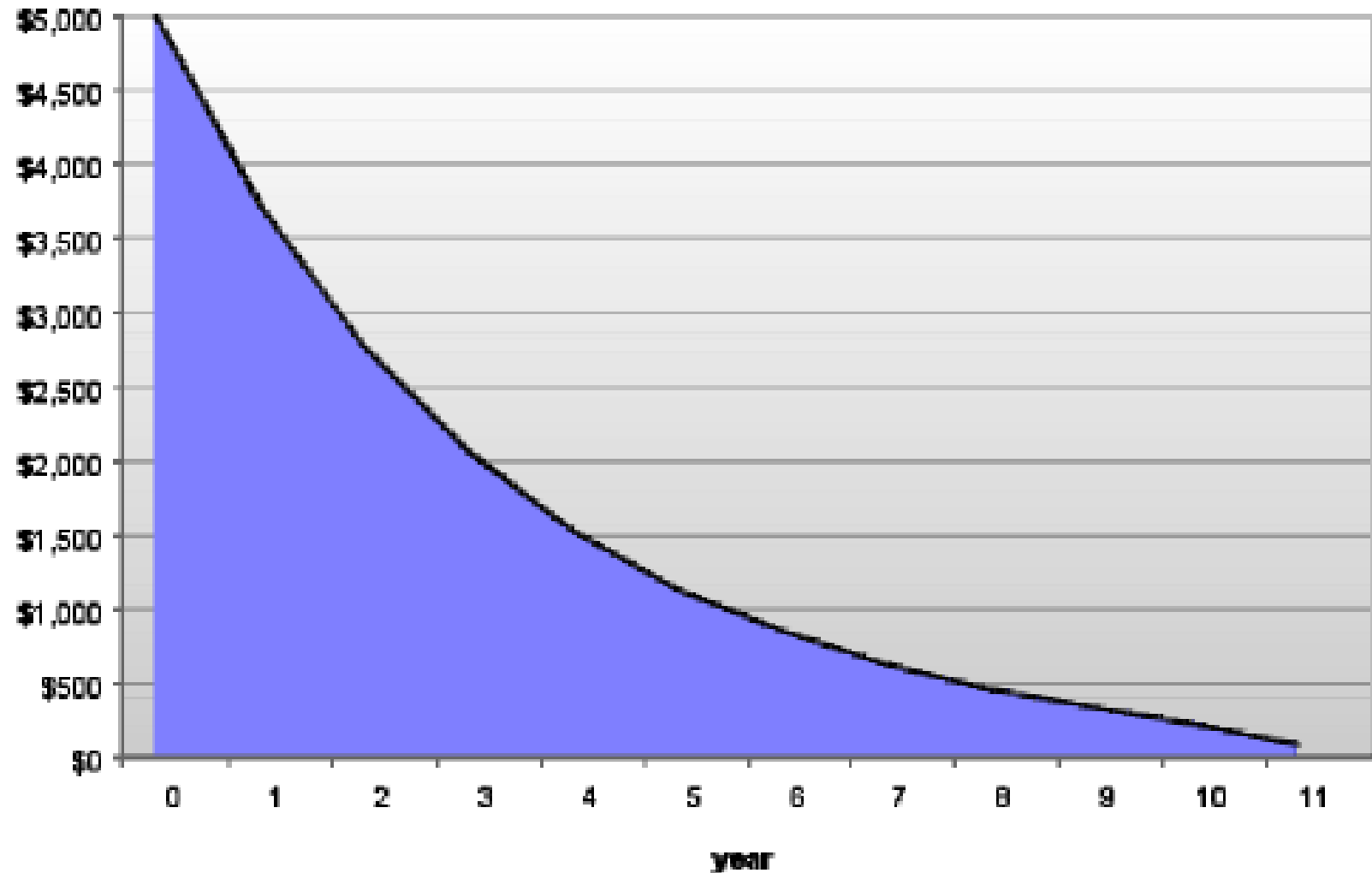
Managing Debt – Credit Cards

Credit Card Minimum Payments

Minimum payments will take 11 years and 5 months to payoff your debt.

You owe a total of \$5,000.00 having a total monthly payment of \$200.00. If you continue to make the minimum payments it will take you 11 years and 5 months to payoff this debt. The total interest paid will be \$3,109.16.

Debt payoff is estimated at 11 years and 5 months



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Debt Summary

	Balance	Interest Rate	Monthly Payment	Interest Owed	Total Payments	Time to Payoff	Payment Type
Credit card 1	\$5,000.00	18.90%	\$200.00	\$3,109.16	\$8,109.16	137 months	Minimum

Mortgages: How much house can you afford?

- The 28% rule is a good guide. But everyone's situation is different.
- Example If you earn \$5000/month. Multiply $5000 \times .28 = \$1400$. There are other models.
- Income
- Current debt – what you currently owe for other debt (credit cards, student loans, car loans, personal loans, other)
- Down payment – 20% down may remove private mortgage insurance charge, the higher the down payment the lower your monthly mortgage payment
- Credit score – good credit can get you a better interest rate (check credit score, your financial history, at least once a year. The Fair Credit Reporting Act gives you a free credit report each year. Check for mistakes, they are common, 25%). May not show credit score. To order: annualcreditreport.com; 1-877-322-8228.

Retrieved from <https://www.forbes.com/advisor/mortgages/mortgage-to-income-ratio/>



Mortgage Rates Resume Their Climb

October 13, 2022

Rates resumed their record-setting climb this week, with the 30-year fixed-rate mortgage reaching its highest level since April of 2002. We continue to see a tale of two economies in the data: strong job and wage growth are keeping consumers' balance sheets positive, while lingering inflation, recession fears and housing affordability are driving housing demand down precipitously. The next several months will undoubtedly be important for the economy and the housing market.

NOTE: Freddie Mac is making a number of enhancements to the Primary Mortgage Market Survey® to improve the collection, quality and diversity of data used. Instead of surveying lenders, the weekly results will be based on applications received from thousands of lenders across the country that are submitted to Freddie Mac when a borrower applies for a mortgage. Additionally, we will no longer publish fees/points or adjustable rates. The newly recast PMMS® will be put in place in November 2022, and the weekly distribution will be Thursdays at 12 p.m. noon ET.

Primary Mortgage Market Survey

U.S. weekly averages as of 10/13/2022

30-Yr FRM

6.92%

0.8 Fees/Points

15-Yr FRM

6.09%

1.1 Fees/Points

15-Yr ARM

5.81%

0.2 Fees/Points

Source: Retrieved and adapted from "Freddie Mac" 10/13/22



Managing Debt - mortgage

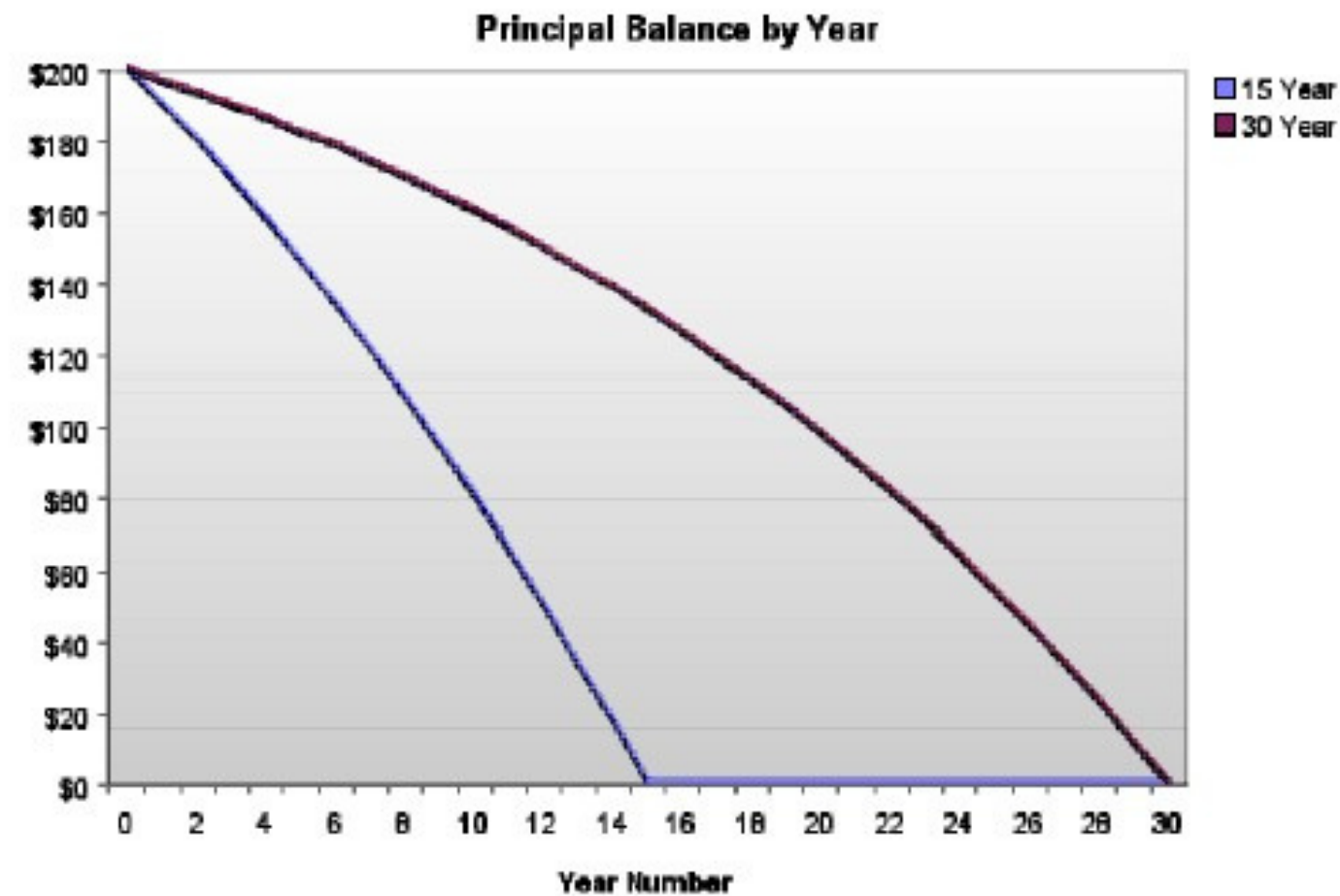
30 Year Payment schedule

Nbr	Payment	Principal	Interest	Ending Principal Balance
				\$200,000.00
1	\$1,013.37	\$263.37	\$750.00	\$199,736.63
2	\$1,013.37	\$264.36	\$749.01	\$199,472.27
3	\$1,013.37	\$265.35	\$748.02	\$199,206.92
4	\$1,013.37	\$266.34	\$747.03	\$198,940.58
5	\$1,013.37	\$267.34	\$746.03	\$198,673.24
6	\$1,013.37	\$268.35	\$745.02	\$198,404.89
7	\$1,013.37	\$269.35	\$744.02	\$198,135.54
8	\$1,013.37	\$270.36	\$743.01	\$197,865.18
9	\$1,013.37	\$271.38	\$741.99	\$197,593.80
10	\$1,013.37	\$272.39	\$740.98	\$197,321.41
11	\$1,013.37	\$273.41	\$739.96	\$197,048.00
12	\$1,013.37	\$274.44	\$738.93	\$196,773.56
13	\$1,013.37	\$275.47	\$737.90	\$196,498.09
14	\$1,013.37	\$276.50	\$736.87	\$196,221.59
15	\$1,013.37	\$277.54	\$735.83	\$195,944.05
16	\$1,013.37	\$278.58	\$734.79	\$195,665.47
17	\$1,013.37	\$279.62	\$733.75	\$195,385.85
18	\$1,013.37	\$280.67	\$732.70	\$195,105.18
19	\$1,013.37	\$281.73	\$731.64	\$194,823.45
20	\$1,013.37	\$282.78	\$730.59	\$194,540.67

Managing Debt - mortgage

Mortgage Comparison: 15 Years vs. 30 Years

15 year term saves you \$98,526, but costs an additional \$466 per month.



A 15 year mortgage term will save you \$98,526 in interest, but only if you can afford an additional \$466 per month. Total payments for a \$200,000, 15 year mortgage at 4.000% is \$266,287. Total payments for the same loan with a 30 year mortgage at 4.500% is \$364,814.

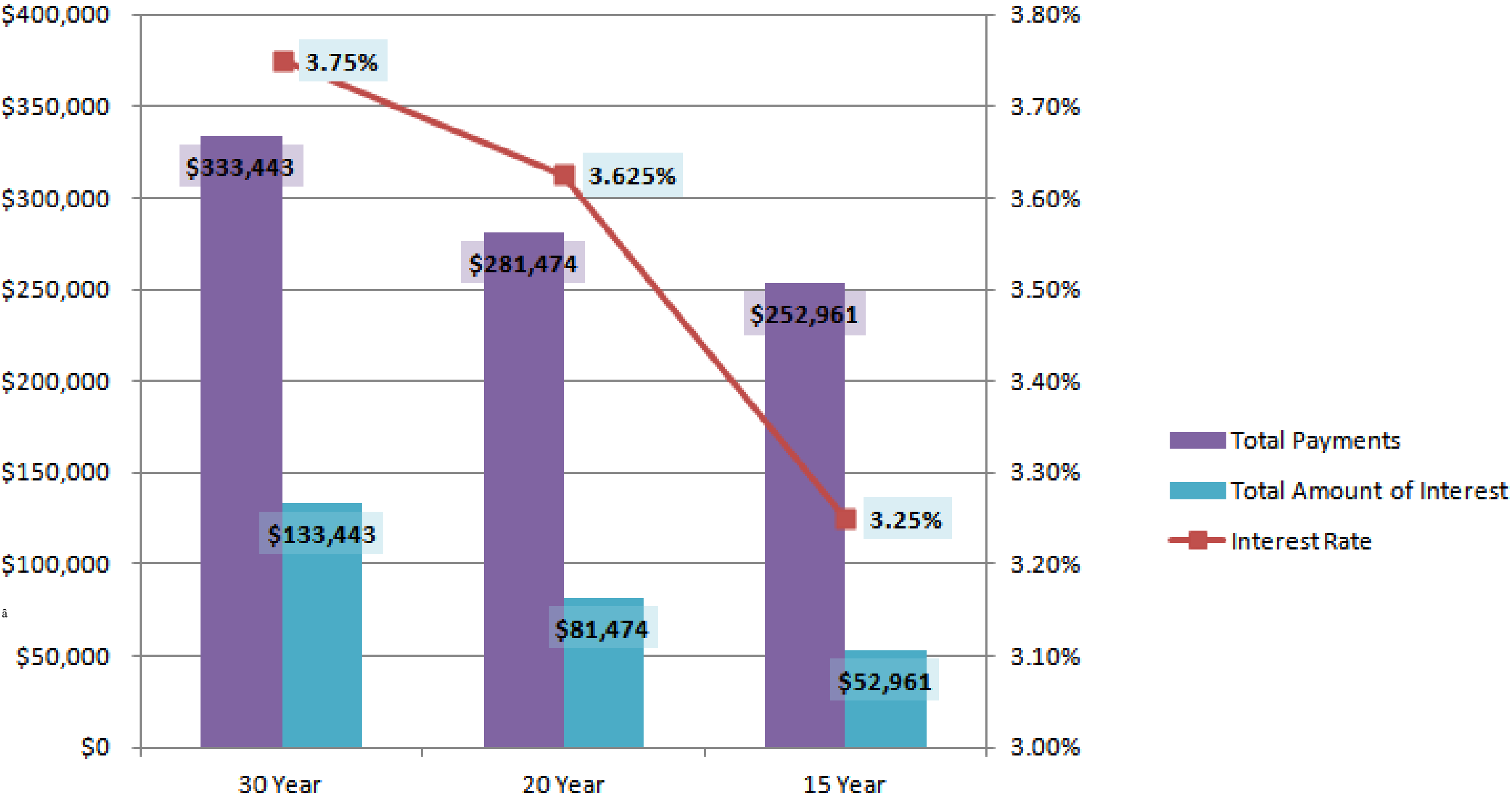
Mortgage Comparison

	15 year mortgage	30 year mortgage
Loan amount	\$200,000	\$200,000
Interest rate	4.000%	4.500%
Monthly payment	\$1,479.38	\$1,013.37
Total interest	\$66,287	\$164,814
Total payments	\$266,287	\$364,814



How much a 15 or 20 year mortgage saves you vs 30 year

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All rates and payments are indicative, assuming a loan amount of \$200,000 downpayment of 20%, and good to excellent credit. Payments only include principal & interest.

How to lower your monthly payment

- Find a less expensive home
- Lower your payment with bigger down payment
- Look for lower interest rates, compare
- Pay down outstanding debt – can raise your credit score

Car Buying?

What To Consider



Mitigating car loan debt

- Use the tools that are available to research and compare prices
- Determine how much “car” you can afford; use 15%-20% of income as a guide
- New or used? Interest rates vary for each
- Car dealerships; auto in a box; private owner
- Warranty – usually provided with auto dealerships and other, not private ownerships
- Don’t forget fuel and insurance costs
- Beware of destination or delivery fees or other “mystery fees”
- Start the process informed
- Lease option?????



Website Link Examples

Annual Fuel Costs	www.fueleconomy.gov
Kelly Blue Book	www.kbb.com
Car affordability calculator	www.Edmunds.com/calculators/affordability.html
National Traffic Safety Administration (recalls)	www.nhtsa.dot.gov
Cost of car ownership	www.Edmunds.com/tco.html
Cost of car ownership – comparison	www.Edmunds.com/car-comparisons/
Department of Justice’s National Motor Vehicle Title Information System (vehicle history)	www.bja.ojp.gov
Edmunds	www.Edmunds.com
Edmunds monthly car payment calculator	www.Edmunds.com/calculators/simplified-pricing.htm
National Automobile Dealers Association Guide (NADA)	www.nadaguides.com
National Insurance Crime Bureau	www.nicb.org

Adapted from University of Florida Extension, Institute of Food and Agricultural Sciences.



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Ownership Costs: 5-Year Breakdown
Selected Model:
2017 MDX SUV Sport Hybrid SH -AWD 4dr SUV AWD w/Technology Package (3.0L 6cyl gas/electric hybrid 7AM) Cost: \$32,073
*Based on a 5-year estimate with 15,000 miles driven per year.

Ownership Costs: 5-Year Breakdown						
	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Tax Credit	\$0	\$0	\$0	\$0	\$0	\$0
Insurance	\$1,027	\$1,058	\$1,090	\$1,122	\$1,156	\$5,453
Maintenance	\$1,172	\$793	\$1,205	\$2,509	\$1,999	\$7,678
Repairs	\$638	\$681	\$729	\$779	\$839	\$3,666
Taxes & Fees	\$1,324	\$62	\$62	\$62	\$62	\$1,572
Financing	\$1,077	\$856	\$627	\$387	\$138	\$3,085
Depreciation	\$6,801	\$3,209	\$2,825	\$2,504	\$2,247	\$17,586
Fuel	\$2,441	\$2,514	\$2,589	\$2,667	\$2,747	\$12,958
True Cost to Own®	\$14,480	\$9,173	\$9,127	\$10,030	\$9,188	\$51,998



Ownership Costs: 5-Year Breakdown – Edmunds.com/tco.html
Selected Model:
2017 MDX SUV SH -AWD 4dr SUV AWD w/Technology Package (3.5L 6cyl 9A) – Cost - \$31,403
*Based on a 5-year estimate with 15,000 miles driven per year

Ownership Costs: 5-Year Breakdown						
	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Tax Credit	\$0	\$0	\$0	\$0	\$0	\$0
Insurance	\$1,027	\$1,058	\$1,090	\$1,122	\$1,156	\$5,453
Maintenance	\$948	\$759	\$1,009	\$2,519	\$1,733	\$6,968
Repairs	\$638	\$681	\$729	\$779	\$839	\$3,666
Taxes & Fees	\$1,285	\$62	\$62	\$62	\$62	\$1,533
Financing	\$1,044	\$831	\$607	\$376	\$134	\$2,992
Depreciation	\$6,595	\$3,112	\$2,739	\$2,428	\$2,179	\$17,053
Fuel	\$3,134	\$3,228	\$3,325	\$3,425	\$3,528	\$16,640
True Cost to Own®	\$14,671	\$9,731	\$9,561	\$10,711	\$9,631	\$54,305



Mitigating car loan debt (cont'd)

Act Quickly, negotiate from an informed perspective

Be careful that you are comparing apples to apples

Look at older models

Prearrange financing

Look outside your area – but not too far

Buy something reliable

Compare prices/options

Stay with what you really need

Don't borrow too much – depreciation

Consider your down payment

Be ready to walk away

[Learn more about our auto loans »](#) Bank of America
as of Oct. 18, 2022
Rates displayed do not include the additional [Preferred Rewards](#) interest rate discount up to 0.50%.

60-month auto loan options More terms available layer	Rates as low as
New car (dealer)	4.79% APR [†]
Used car (dealer)	4.89% APR [†]
Refinance	5.89% APR [†]
Buy out your lease	5.69% APR [†]
Private Party ^{Footnote 1}	7.79% APR [†]



Those Big Ticket Items

- Wait inflation out, if you can, (i.e. houses, cars, computers)
- Lock in low(er) interest rates on loans
- Compare, compare, compare and go in informed about interest rates, average price of item; features of the items; your credit score; get pre-approved; be prepared to walk away. If not in your budget, don't get it.



Strategies for getting out of debt

- Establish a workable, balanced family budget with resources allocated to debt reduction (beyond minimum payments).
- Use some savings money to pay off high- interest debt (but keep a reserve).
- Explore ways to transfer your balance on high interest credit cards to low interest credit cards
- Snowball method vs. avalanche method
- Make on-time minimum payments on all debts
- Repeat until all debts are paid off.



More strategies to get out of debt

- Put your debts into PowerPay or other debt elimination site/app to create your debt-elimination plan - <https://powerpay.org> - make it automatic
- Automate your debt-elimination plan
 - Once a debt is paid, pay all extra money to next debt until all consumer debt is gone
 - Use bill pay with your bank/credit union
- Don't buy things you don't really need
- Have an emergency fund and plan for periodic expenses



Resources

- Debt Elimination - <https://powerpay.org>
- Jorgensen, Bryce. Feeling Free by Eliminating Debt. New Mexico State University Cooperative Extension Service, 10/22.
- Rehwinkel, Chasse; Giancola-Shanks, Nikki; Pellegrini, Andrea. Get Savvy Financial Series. University of Illinois. 10/22
- Repaying student loans - <http://gradsense.org/gradsense/loan-payment>
- Student debt clock - <http://collegedebt.com/>
- Financial Education in the U.S. - <http://www.surveyofthestates.com/#no-degree>
- Drive Free, Retire Rich - <https://www.daveramsey.com/blog/drive-free/>
- Most and Least Financially Literate States -

Just Do It!!!!!!!

- Avoid debt
- Minimize debt
- Eliminate debt
- Become debt-free forever!

