



Personal Finance 101

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Introduction

Welcome to the world of personal finances. It's important that you understand what is available to you and what some financial terms mean.

In this day and age, personal finances are more important than ever. The economy is unstable. Lay offs are happening left and right. People are being left with nothing to stand on.

Our world is very different from the one our parents grew up in. A dollar doesn't buy much nowadays. So we need to educate ourselves about the subject of personal finances

In this report, we will discuss some common financial terms and the pros and cons of these terms.

Let's get started!

Credit Cards: Friends Or Foes

Credit cards. You see the offers all the time. You see the commercials on TV and you see the offers come in the mail. Are they really a big deal?

Depends on who you are asking.

First, let's talk about what credit cards are. A credit card is a piece of plastic that carries identifying information about a credit account you have opened at a bank or other institution. The line of credit is pre-approved, which means you will not have to forfeit any assets (or things you own) to the bank in the event you don't pay back what you owe.

An advantage to having a credit card is using the card to make transactions over the internet or over the phone. It is fast and convenient compared to using a check or money order by mail.

Another advantage to using a credit card compared to using a check is that store owners and merchants are able to easily recognize and authenticate a credit card. When a customer uses a check, the merchant has to worry about whether the customer has sufficient funds to cover the transaction...especially if the check is from out of town. When a customer uses a credit card, the merchant does not have to worry about if the transaction will be paid for.

A disadvantage of having and using a credit card is the massive debt that can come with that usage. If the customer loses a job all of a sudden, it might become very difficult to pay back the balance on the credit card or cards that have been used.

Mortgages

A mortgage is a loan secured by real property. There are many different types of mortgages. Some different types are adjustable rate, fixed rate, and reverse mortgages.

Adjustable Rate Mortgages

Adjustable rate mortgages, or ARMs, are loans with an interest rate that changes. These types of mortgages may start with lower monthly payments than other types of mortgages, but there are things you need to know.

- Monthly payments could go up, sometimes by a lot, even if interest rates don't go up.
- Monthly payments may not go down much or even at all, even if interest rates go down.
- Even if you make all your payments on time, you may end up owing more than you borrowed.
- You may have to pay a penalty if you want to pay off your ARM early to avoid higher payments.

It would be in your best interest to compare adjustable rate mortgages to each other and with fixed-rate mortgages.

Fixed Rate Mortgages

A fixed rate mortgage is a loan that requires you to pay a fixed total amount per month for a certain duration of time.

The most common types of fixed rate mortgages are 15 and 30 year mortgages. They are also available for 20 or 10 years.

30 year fixed rate mortgages take 30 years to pay off and is the easiest fixed rate loan to qualify for. It gives you the best chance to keep your monthly payments low because of the longer term.

15 year fixed rate mortgages take 15 years to pay off. These loans offer a lower interest rate than 30 year fixed rate mortgages, but your monthly payment will be significantly higher than the 30 year loan. Since more of your monthly payment will be going to the principal and less toward interest with a 15 year loan, you can build equity at twice the pace compared to the 30 year loan.

If you are planning on staying in your home for more than 5 years and want the security of a never changing mortgage payment, than a fixed rate mortgage is the way to go.

Reverse Mortgages

Reverse mortgages are available to customers who are 62 years old or older. These loans allow you to convert some of the equity in your home to cash without having to pay extra monthly bills or sell your home.

Basically, you get paid from the lender instead of *you* paying the lender every month. This extra money can be used to finance a home

improvement, pay for healthcare, or pay off your current mortgage.

Generally, you don't have to pay the reverse mortgage back for as long as you live in your home. The loan is repaid when you pass away, sell your home, or your home is no longer your primary residence.

Investing In Your Future

Investing is made up of a number of different investment categories or asset classes.

Stocks and bonds are the asset classes that you are most likely to hear about. Some features are:

- They are easy to buy and sell.
- The price points vary widely.
- They have a history of providing positive returns. Keep in mind that the returns are not guaranteed and they are not positive every year.

Mutual funds are another asset class. These funds own a pool, or collection, of investments of a particular type. Some mutual fund companies sell shares directly to investors and some are available through brokerage accounts or banks.

Real estate is an asset class that a person will often invest in first. Real estate can play a role in getting to your financial goals because it often becomes more valuable over time.

Retirement

How soon should you be thinking about your retirement? The answer is not soon enough!

There are decisions you need to make and options you need to consider before you retire. Some of the main points to think about are:

1. Do you have enough money in savings to retire safely?
2. Do you have enough money saved in programs like 401Ks to enable you to retire?
3. Do you know how to apply for your piece of the retirement benefits offered to you from Social Security?

It is important to sit down and plan for your retirement if you don't know the answers to any of the above questions.

You can start by contacting a Human Resources representative at your place of employment. You can also do a search online for "Retirement Planning Checklists" or "Retirement Preparation Checklists".

Bankruptcy

Bankruptcy is a legal status of a person who cannot afford to pay back their creditors. You will need to get legal advice for filing bankruptcy as this guide is not complete.

There are several types of bankruptcy. They include:

Chapter 7 – Property you own that is of value will be turned into cash to pay back your debts. A trustee will be appointed to take over your property. You may be able to keep some personal items and some real estate.

Chapter 13 – You can usually keep your property, but you will still have to pay back some of your debts from wages you earn at your job. Your repayment plan and budget must be approved by the court. A trustee will be appointed. You will make your payments to the trustee and the trustee will make sure to pay your creditors and will also make sure you stick to your repayment plan.

Chapter 12 – Only for family farmers or family fisherman and is handled like a Chapter 13.

Chapter 11 – Used mostly by businesses. You are able to keep your business, but the court and your creditors must approve a repayment plan.

A bankruptcy can be reported on your credit report for up to 10 years and may affect your ability to qualify for credit in the future.

Estate Planning

Estate planning is the process by which you create a plan for the management of your property and money after you have passed away. Almost always a Will is part of the estate planning process.

Some points to address are:

- Who should get my money and property when I'm gone?
- Is there enough money to provide for my family?
- Who will manage my estate?
- Are there tax-savings opportunities?
- Is there a problem of succession to control of a family business or farm?

Knowing the answers to these questions will allow for a smooth estate planning process. It would be in your best interest to contact a lawyer for legal advice for this process. The questions listed above are not all inclusive and everyone's situation is different.

You want to get a plan that is tailored to your specific circumstance.

Do I Need Life Insurance?

If you have children or any family members that you love, you need to think about getting life insurance.

Life insurance pays a pre-determined amount of money to your beneficiaries in the event of your death. You are able to pick your pre-determined amount and also who your beneficiaries will be. You will have to pay a monthly premium for your life insurance plan until you pass away.

Some life insurance companies require a physical for people over a certain age. Some companies don't require physicals.

There are also different amounts you can be covered for. You need to take into consideration how much debt you have and how many loved ones you would like to have as your beneficiaries. You want enough life insurance coverage to pay off your debts, cover your funeral costs, and still leave some money for your loved ones to use toward other expenses.

Make sure to shop around for quotes on life insurance. Premiums can vary and you will have to fit your monthly premium payments into your budget.

Saving For College

Do you have children?

If so, would you like them to attend college?

As you well know, college is not getting any cheaper. It is important to try and save money now, while your kids are young, so that when the time comes for your babies to go off to school, you and your kids won't have the extra burden of finances to worry about.

There are many ways to start a college fund. Most employers have a program where you allocate an amount to be set aside, before taxes are taken out, for the purpose of college tuition. This amount is taken out of your pay check before you even see it and like I said it is tax free! You will need to speak to the Human Resources department to find out more details and to set this up.

Also, you can check with your bank for college saving plans. The account can be set up and a portion of your pay check can be deposited into the savings account. This account can accrue interest. Your banking representative can go over all the details with you and chart a course of action.

College is a huge expense. Especially if you have more than one child. Proper planning will take the sting out of your wallet.

Conclusion

You have just read a few of the categories that are included in your personal finances. These categories are important to your financial health.

If possible, you should take action right away on the ones that are important to your situation.

Call around to see if you can get a free consultation with a lawyer for the categories that involve legal matters. Make an appointment with your banking institution to discuss your options for savings accounts, investment opportunities, and mortgages.

You can also shop around at different banks even if you don't have an open account with the different banks.

You will have piece of mind once you have your financial ducks in a row.