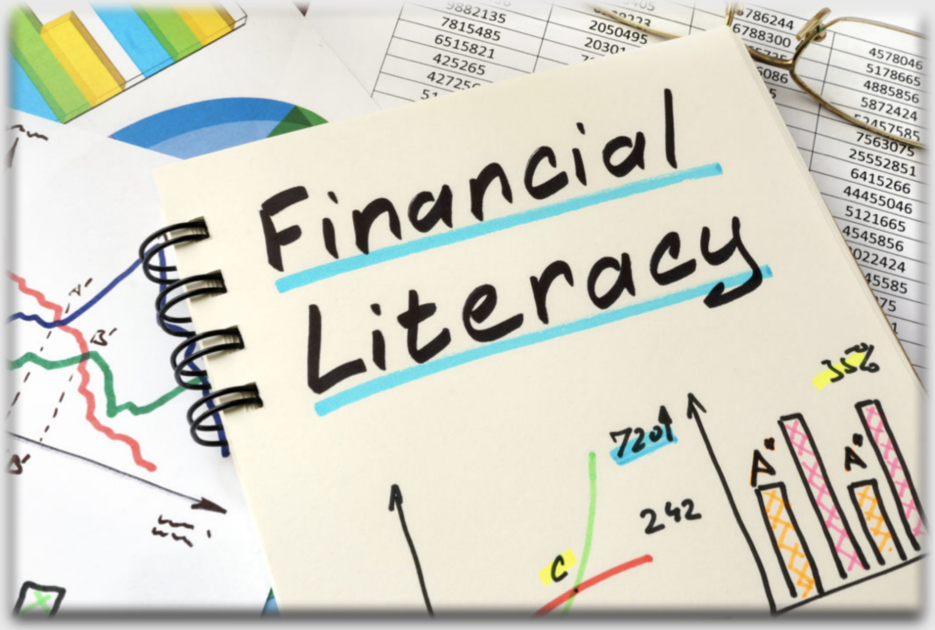
Educational materials on financial literacy and debt management by EPA – USA Inc.

Scope of the presentation

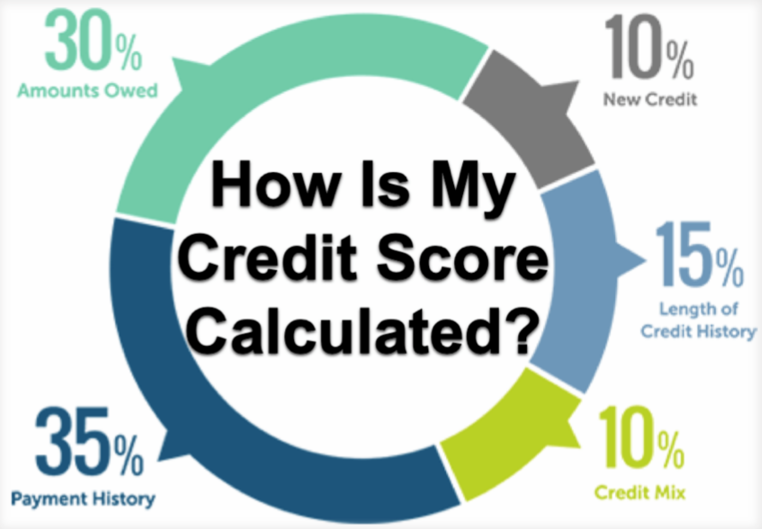
I. Credit Score and how to improve it
II. Saving and Investing
III. Understanding your income
IV. Creating of a budget
V. Smart Borrowing
VI. Manage your credits card wisely



Credit Score and its’ main factors

Your Credit Score is based on following:

- If you pay your bills on time
- The total amount of debt you have and how close to your credit limit that amount
- The number of accounts recently opened
- Number of recent inquires about your credit score
- The different types of accounts currently open
- Length of time you have been building credit



How to improve your Credit Score

The first step in improving your credit score is to be aware of what's on your credit history. There are three major credit bureaus - ***Experian, Equifax and TransUnion****. That each has its own credit report and score for you based on your credit history. That means everyone actually has three credit scores.*

I. **Pinpointing what you need to improve** – Payment History, Amount of debt, Age of accounts, Account mix, History of credit applications
II. **Fixing your late payments** – closing accounts won't make your problems disappear, one late payment can be forgiven by the creditors, however repeated delinquencies may require a little more effort on your part to be removed
III. **Opening of a secured credit card** – this type of credit involves depositing your money to the checking account to secure the line of credit the lender is extending to you
IV. **Maintaining revolving balanaces** – if staying at 30% credit card utilization is difficult for you, there is always the option of increasing your credit card limit
V. **Clearing of any outstanding collection accounts** – Contact your creditors about paying off your debt, make sure they agree to remove the negative hit to your credit report if you repay it in full

Saving and Investing

Establishing a savings account is the best way to help you financially deal with the uncertainties of life (such as job loss or medical expenses) and achieve your financial dreams (pay for college, purchase a car, travel, or save for retirement).

Make sure you are not spending more than you earn and that you are able to save money every month. Ultimately, you should maintain a balance that would cover six to 12 months of your expenses. Small amounts add up and make a difference over time.

A savings account with compounding interest will help your account balance grow. The interest that you earn on your savings account is added to the total balance of your account, which will result in more money earned.

Saving and Investing

Remember to pay yourself first! Depositing money into a savings account should take priority over any additional spending. Here are some ideas to help:

I. As you pay your monthly bills, set money aside to deposit into your savings.

II. Ask your bank to automatically transfer money from your checking to your savings once or twice a month

III. Request a direct deposit from your employer for a portion of your paycheck to be deposited into your savings

Understanding your income

Let's start with an example: You've just been offered a starting position with a local firm. They've offered you 40 hours per week starting at $15 per hour, which means you'll be taking home $600 (40 X 15) dollars a week. True or False?

FALSE

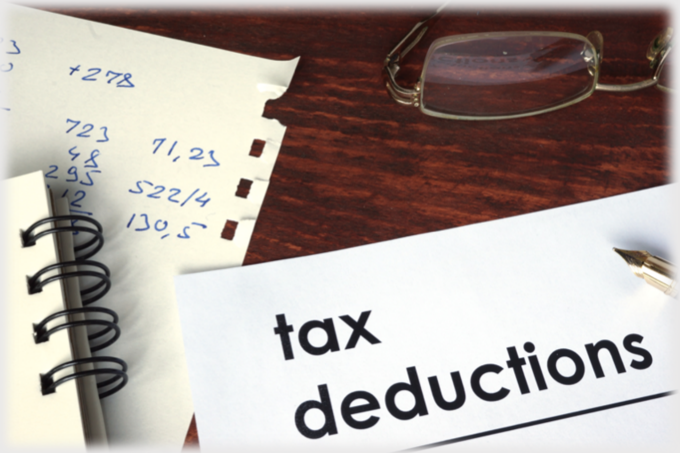
There are numerous deductions taken from your gross pay (hours multiplied by your hourly wage). Your net pay is the amount of money you receive after deductions are taken.

Standard deductions:

I. Federal income tax – tax you pay the federal government.
II. Social Security – a contribution toward Social Security retirement benefits.
III. Medicare – a contribution toward Medicare benefits.

Understanding your income

The amount of federal taxes withheld will depend on the amount of your pay and the number of exemptions you claim on your W-4. An exemption is a deduction that allows a certain amount of income to be excluded to avoid or reduce taxation. Exemptions may be for the individual and family members who the individual supports. Other Deductions can be:



I. State taxes – Many states withhold state income taxes.

II. Additional retirement contributions – Voluntary contributions, such as 401K, 403b

III. Health insurance - Some employers will pay all or part of an employee's health insurance costs.

IV. Cafeteria plan benefits – Many employers may allow you to have a portion your pay set aside for child care and/or health costs. These withholdings typically are pre-taxed.

V. Wage garnishments – Money automatically deducted as a result of a legal decision, such as defaulting on your federal student loan.

Creating of a budget

Establishing a budget and monitoring it on a regular basis is not easy, but it is the best way to ensure you are in control of your financial future. Think of your budget as a spending plan. It helps you be aware of how much money you have, where it needs to go, and how much, if any, is left over. ***Follow these simple steps****:*

1. Determine your income. a. Review your paystubs and your check register to identify how much money you are earning. b. Do not include overtime pay. It is not considered regular income.

2. Determine your expenses. a. Review your checkbook register, store receipts, and billing statements to see where your money is going. I. Fixed expenses include items such as a rent, auto, or student loans that must be paid each month. II. Flexible expenses include items such as food, clothing, and entertainment that vary from month to month. Do not group things such as eating out and groceries together and list them as food. Do not add cable, cell phone, power, and water together and list them as utilities. III. Always remember that saving must be first on your list of expenses.

Smart Borrowing

At some point you may need to borrow money (take out a loan). It is imperative that you borrow smart if you want to maintain your financial stability. Loans are most commonly used for the following: **Homes, Automobiles, Education**

When considering the purchase of any item, consider these questions: "Do I really need this item?" "Would I be better off to save for this item in the future and pay cash?"

Smart Borrowing

With any loan, you should consider several factors, including the interest rate, additional fees, and down payment.

The interest rate is the amount you are charged to borrow money. When money is borrowed, you must repay the principal (the dollar amount you borrow), and the interest that accrues during the life of the loan. The higher the interest rate, the more you will pay. Interest rates may be fixed or variable.

For some loans, **additional fees** may be charged. For example, some loans have closing costs. Auto loans may include additional insurance or warranty costs. Student loans may have origination and/or default fees. Prior to accepting a loan, make sure you understand the payment requirements and all of the fees associated with the loan.

Down payments are large payment amounts paid toward your purchase. Down payments minimize the amount you have to borrow. The more money paid up front toward the purchase, the more money you will save over the life of the loan.

Manage your Credit Cards wisely

It is easy to get a credit card, but managing it isn't always as easy. Here are some helpful tips:

Credit cards are **borrowed money.**

You must **repay them**. Don't spend more than you can afford to pay in full.

If you do not pay your balance in full each month, **interest will accrue** and will be added to the total amount you owe.

Manage your Credit Cards wisely

Understand the consequences of a credit card.

Example: A television is purchased by credit card for $1,000 with an interest rate of 22 percent. Instead of paying the amount in full when the bill is received, you only make the minimum required payment of $25 each month. Result: at the end of 72 months, you will have paid a total of **$1,800** for a television that originally cost **$1,000.**

Manage your Credit Cards wisely

Consider all of the possible consequences before getting a credit card.

- Careful use of your credit card will assist you in establishing a solid credit rating.
- Poor use of your credit card can rapidly place you into debt.
- Don't always carry your cards with you.
- Limit your number of credit cards.