Concise Guide

Financial Literacy for College

2024

Alex Monteagudo

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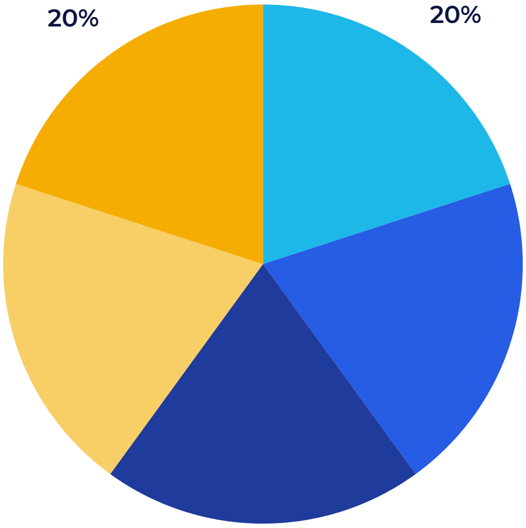
BUDGETING



CATEGORIES

Essentials
REQUIRED - rent/ mortgage, utilities, gas, car payments, health insurance, groceries, etc.

Security
Improve financial stability - saving up an emergency fund (6 mo to 1 yr of expenses) , paying off debts, etc.

Goals
Savings for large life goals - buying a house, starting your own business, etc.

Lifestyle
Navigating social life - Gym membership, clothing and apparel, pet needs, gifts, etc.

Personal
Personal enjoyment – going out to eat, buying something you like, etc.

MAKE YOUR BUDGET

- Create a written budget either on an app or with pen and paper.
- Check your spending from the last 3 months using bank statements or banking apps for an idea of your monthly expenses and income
- Then, allocate your money towards the 5 categories shown above based on past spending.
- Take any money left over for your savings. Determine what your money is being saved for to prevent taking from savings for overspending.

Savings Goals
Short term = Less than 2 months of savings
Medium term = 2 months to 3 years
Long term = Greater than 3 years

PERSONALIZE

The distribution **amounts** and **order** should change based on your priorities.

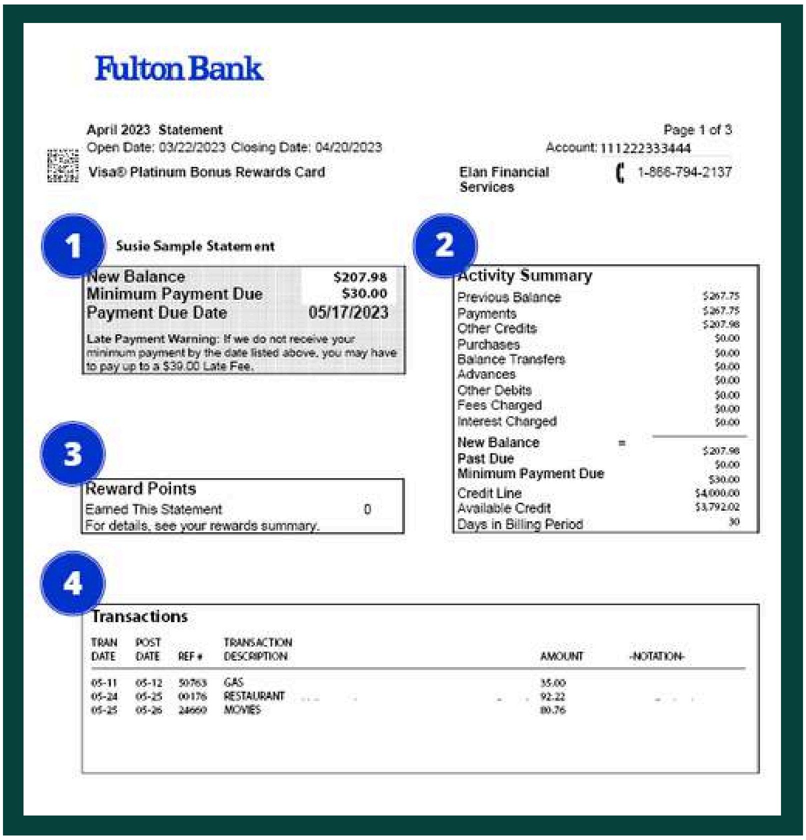
Example
For people focused on their long-term financial security.

- Start by saving 50% of their paycheck
- Start budgeting with essentials and security categories
- Then determine the amount for lifestyle, personal, and goals with the remaining money.

Also changes month-to-month with added or removed expenses.

CREDIT CARDS

Credit Cards are thin rectangular pieces of plastic or metal that lets you borrow money from the bank to pay for goods and services. This money must be paid back and can be charged additional interest



Fulton Bank

April 2023 Statement
Open Date: 03/22/2023 Closing Date: 04/20/2023
Visa® Platinum Bonus Rewards Card

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Account: 111222333444
Elan Financial Services
1-866-794-2137

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Susie Sample Statement

New Balance	$207.98
Minimum Payment Due	$30.00
Payment Due Date	05/17/2023

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay up to a $30.00 Late Fee.

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Activity Summary

Previous Balance	$267.75
Payments	$267.75
Other Credits	$207.98
Purchases	$0.00
Balance Transfers	$0.00
Advances	$0.00
Other Debits	$0.00
Fees Charged	$0.00
Interest Charged	$0.00
New Balance =	$207.98
Past Due	$0.00
Minimum Payment Due	$30.00
Credit Line	$4,000.00
Available Credit	$3,792.02
Days in Billing Period	30

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Reward Points

Earned This Statement	0

For details, see your rewards summary.

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Transactions

TRAN DATE	POST DATE	REF #	TRANSACTION DESCRIPTION	AMOUNT	-NOTATION-
05-11	05-12	50763	GAS	35.00	
05-24	05-25	00176	RESTAURANT	92.22	
05-25	05-26	24660	MOVIES	80.76	

APR

Annual Percentage Rate is the yearly percentage cost of borrowing money. Includes some fees and other costs but does not include compounding effects on interest owed. Helps compare costs across credit cards.

Repayment

Balance is the amount of money you borrowed during the month. Minimum payment is the least REQUIRED but the rest of the unpaid money will be charged interest AND carried into next month's balance.

You pay no interest if balance is paid in full at the end of the month. Try to always pay the balance in full.

Credit Card Rewards

Cash back, points, and miles are the three main rewards. Cash back returns a percentage of your purchase in dollars (EX 2% cashback gives 2 cents per $1 spent). Points and miles could be like 2x points per $1 spent in certain categories. The value of points varies between banks and in how you redeem them. 60,000 pts with Chase is worth $600 alone, worth $750 if redeemed by Chase travel portal, and $1,200 if using a high-value travel partner.

You should opt for credit cards with rewards you will use.
Example: Out-of-state students can find a student travel rewards card to gain points for flights.

Nerdwallet.com side-by-side comparison

CREDIT SCORE

The FICO Score (Credit Score) is a score between 300 and 850 that lenders use to determine creditworthiness (how safe it is to lend you money). Lower scores entail worse terms on loans because the bank wants to be compensated for the risk that you pay late or don't pay at all.

It's calculated using five different components of your credit history:

35%

PAYMENT HISTORY

Credit score improves through payments made on time on all open credit accounts and is reduced by late or incomplete payments. This payment history builds on itself.

15% AGE OF YOUR CREDIT ACCOUNTS

How long you've had credit accounts open, and the average age of your accounts. A longer credit history is better. Opening new credit lines decreases average age.

10% NEW CREDIT

Red flag if you open many credit lines in a short period or if many lenders have to check your score. "Hard pulls" check credit score but momentarily reduce it to disincentivize new credit.
"Hard pulls" = creditors check
"Soft pulls" = insurance or employers (no impact on credit score)

30%

UTILIZATION RATE

This is the amounts owed on revolving accounts (e.g. credit cards) relative to their credit limits. For example, if you have a credit card with a $1000 credit limit, and you charge $100 on that card, then the utilization rate for that account would be 10%. Generally speaking, the less you borrow relative to your limit, the better. Many experts advise you keep your credit utilization rate to no more than 30%.

10% CREDIT MIX

Three main types of credit
Revolving - like credit cards)
Installment - like student or car loans)
Mortgages - home loans

An ideal credit report has a mix instead of overreliance on one.

APARTMENTS

Internships / full-time work may involve a search for housing. This process should get you a property that fits most of your personal criteria while not exceeding ~30% of your gross income.

PRICE PER SQUARE FOOT

Measures the value of your money in terms of apartment size. Take the monthly rent (EX $1,000) divided by the square feet of the apartment (EX 480 sq ft) to get this rate (EX $1,000 / 480 = $2.08 per square foot). Amenities, location, building condition influence this price/ sq ft value, but it helps with comparing properties.

WALKABILITY / QUALITY OF LIFE

Walkscore.com tells you the ease of walking/ biking/ transit for your location. This can determine whether you will need to budget for a car (or car payments) or monthly transit costs. N**erdwallet.com's cost of living calculator** compares the amount of income needed to match a certain quality of life. Example: You would need to earn $100k annually in San Francisco to live like a person with a $54k annual income in Jacksonville, FL

ROOMMATES

While searching for apartments, it could be cheaper (per person) to choose a 2+ bedroom apartment with higher rent and divide it with roommates. Make sure to have a plan in case one member can not pay rent and that you can all live comfortably together. Compare studio, 1 bedroom, and 2+ bedroom costs in your area.

COSTS

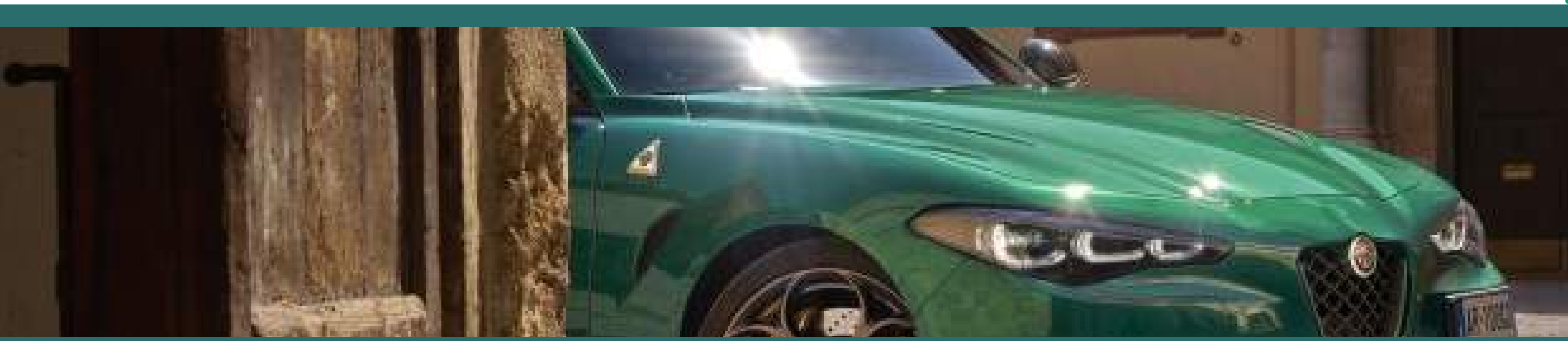
In addition to rent, make sure you can also afford the intial security deposit (often the first and last month's rent), required insurance, Homeowners Association fees (if applicable), parking fees, etc. The benefit to having websites like **apartments.com**, **zillow.com**, **craigslist.com** is the ability to figure out average prices and find good deals by comparison shopping.

READING LEASE

The lease is a binding legal document, but you should be able to read and understand it. A few key points to examine include:

- What happens if you exit the lease early
- Security deposit amount
- Required insurance
- Guest limits (how many people you can have as guests and for how long)
- Subletting rules
- Renewal procedures, lease may renew automatically and/or required advance warning that you plan on exiting the lease
- Repair and maintenance procedures
- Responsibilites of the tenant (you) and responsibilities of the owner

CARS



KELLEY BLUE BOOK

Kelley Blue Book is a good starting point as it gives you the expected value of the car you're interested in given the mileage and condition. Lets you see if a vendor is over/under selling the car. **kbb.com**

CARFAX

CARFAX give vehicle accident history reports that influence the value of the car. Some online dealerships provide CarFax reports for free and CARFAX themselves sell cars. Avoid buying used cars with accident histories. **CARFAX.com**, **autotrader.com**, **carmax.com**, etc.

GENERAL ADVICE

Used cars with mileage under 50k or 100k without an accident history. Brands like Toyota, Honda, Ford are reliable brands with cheaper maintenance and insurance than other cars. Car payments should be less than 15% of your net monthly income.

Budget for car maintenance based on vehicle manual - new tires every 30k miles, oil changes between 5k and 8k miles, and so on.

DEALERSHIP TIPS

Dealerships can often leave you with bad deals. Buying cars in full is the best option, but if financing is necessary:

-Do not finance through the dealership. Dealers will bring your application to a bank themselves for your loan, called "Indirect lending", where they make money at your expense. Instead, go directly to a credit union and take out a loan with them to buy the car (make sure to put in a down payment ~20%).

-Auto loans should be kept to less than 60 months for new cars and less than 36 months for used cars. Stretched out loans will drain your funds and charge excess interest.

-You can make larger car repayments to save on interest in the long run.

INVESTMENTS

You will likely have money left over after covering expenses for the month. This excess money can be invested to grow over time in assets that match certain financial goals (retirement, long-term growth, short-term savings, etc.) and beat inflation.

JOB BENEFITS

Many careers add employee benefits on top of their base salaries / hourly wage which makes it harder to compare two offers. To compare, calculate the value of the benefit per hour -- Example: a gym membership can be worth $240 per year, if you work 2,000 hours per year (40 hours/week for 50 weeks) the benefit “adds” $0.12 to your hourly wage ($240 / 2,000 hours). Following this process for all benefits, you can compare these “hourly wages” directly.

RISK VS REWARD

Investments are a trade-off between safety and higher returns. Higher returns = greater risk of losing money, lower risk of losing money = lower returns. One is not better than the other, your choice depends on your financial goals.

INVESTMENT VEHICLES

[Organized from safe to riskier assets]

Savings Accounts: Safe and liquid, but pay small interest rates. Some banks offer high-yield savings accounts but those may not outpace inflation. Roughly 5% interest as of August 2024.

Series I Savings Bond: Pay a guaranteed rate and can be bought directly from the federal government. Penalized if money is withdrawn before 1 year passes.

Certificate of Deposit: Issued by banks/ credit unions. There is a minimum deposit amount and a fixed term (usually 1-5 years). As long as the bank/ government stays afloat, you'll get your money back.

Bond Funds: Treasury, municipal, and corporate bond funds are publicly traded and have no guaranteed returns. Safer because the bond market doesn't crash like stocks do.

Stocks: Investment in ownership shares of an individual company OR in funds that track a group of stocks (ETF). S&P 500 (500 largest corporations in America) has averaged 9% growth per year over the last 90 years, but the actual year-to-year change varies dramatically.

Example from S&P 500:
May 2008 - February 2009 = -38.49%
July 2023 - July 2024 = 25.26%

Index Funds vs Individual Stocks: Index funds are made up of many stocks of a certain category like the S&P 500, technology stocks, real estate, etc. Index funds provide more diversification while individual stocks could be more profitable at a higher risk level. Some stocks and index funds offer dividends, small payments to you when the stock increases in value.

COMPOUNDING

Investments can earn interest on the initial amount invested (principal) along with the interest that has been collected over time. So, the growth of your investment **accelerates** over time as you earn interest on larger and larger balances. The earlier you invest, the more time you give for this compounding effect.

It may be difficult to intentionally set aside money for investment. You can set aside a mandatory x amount of your paycheck towards investments, and apps like Acorns round up your purchases for very small investments. Automatic dividend reinvestment also put your small dividend payouts back into your account for growth.

RETIREMENT

401K

Employer-provided defined contribution (payout depends on amount you contribute into 401k) retirement savings plan where you can choose from a variety of investment options for the contributions. Employers often match your contributions up to a certain amount. Financial advisors suggest maximizing 401k contributions or --at minimum-- putting in the amount your employer matches.

IRA

Originally designed for self-employed people who did not have access to employer-based retirement accounts like a 401k. Anyone can open one now through a bank, investment company, online brokers, or personal brokers.

Money in a Traditional IRA can not be withdrawn before the age of 59 & 1/2 without taking a tax penalty of 10% and state/ federal taxes on the amount withdrawn. The limitation to the IRA is the amount you can contribute in a year.

Money in a Roth IRA can not be withdrawn until the account has been owned for 5 years AND you are either 59 & 1/2 years old, first time home purchase (up to $10k), events of death or disability. Early withdrawal can get a 10% tax penalty.

ROTH VS TRADITIONAL

IRAs and 401k's can either be Roth or Traditional accounts.
Roth IRAs / 401ks grow tax-free because contributions are made with post-tax money, accounts are not tax deductible. Withdrawals are tax free in retirement.

Traditional IRAs / 401ks are made with pre-tax dollars and tax deductible. You pay taxes on withdrawals in retirement.

SOCIAL SECURITY

Social security is a U.S federal program that provides retirement benefits and disability income. A portion of each paycheck goes towards social security. Workers must be at least 62 years old and have paid into the system for 10+ years. Social security alone is rarely enough for reitirement, but it can supplement other savings.

FINANCIAL MATH

FINANCE AND MATH

The best way to plan and support your financial decisions is by running certain calculations. Besides the addition or subtraction of expenses and income on your budgeting, here are some formulas to know.

RULE OF 72

To determine approximately how long it will take for an investment to double in value, divide 72 by the rate of return

72 / rate of return = time for an investment to double in value

Example: an investment earning 10% will double in ~7 years (72/10 = 7.2).

RETURN ON INVESTMENT (ROI)

The money gained from investing (return) is calculated by

((Current price - Purchase price) + Dividends) / Purchase Price) x 100 = the percent % return on investment

Example: Buying an asset for $100 and it grows to $110 without dividends.

(($110 - $100) + 0) / $100) x 100 = 10, you earned a 10% return on investment.

DIVIDEND YIELD

Dividend yield is the return an investor would earn from the dividend of an investment alone.

Annual dividend / stock price = return on investment from dividends alone

EQUITY NET OF SALES COMMISSION

Some stock brokers charge a commission, which comes as a percentage of the final sales price.

(1 - sales commission as a decimal) x total sale value = net equity

Example: a stock broker that charges 6% sales commission and you sell stock for $100.

(1 - 0.06) x $100 --> (0.94) x 100 = $94 net sale.

COST OF SPENDING

Discretionary spending on fun/ convenience is good in moderation, but the accumulated cost becomes significant with time.

Standard Netflix subcription = $15.49 per month

After 3 months = $46.47 spent

After 1 year = $185.88 spent

After 5 years = $929.40 spent

While $15.49 is a small amount in a month, This discretionary spending ends up being a significant amount ($929.40) after 5 years of these payments.

FINANCIAL MATH CONT.

APR

APR is calculated by **(((Interest charges + fees) ÷ loan amount) ÷ Number of days in loan term x 365) x 100)**. You can turn the APR into a daily rate by dividing it by 365.

SIMPLE INTEREST

Simple interest is calculated with principal alone, usually applies to automobile loans and short-term personal loans. Simple interest calculators exist.

A = P(1 + rt)
A - final amount
P - initial principal balance
r - annual interest rate (as a decimal)
t - time in years

COMPOUND INTEREST

Compound interest applies to the principal and the interest that has been earned. The more compounding periods over the term of the loan, the greater the compound interest growth will be. Compounding calculators exist.

A = P(1 + (r/n))^nt
A - final amount
P - initial principal balance
r - interest rate (as a decimal)
n - number of times interest is compounded per year
t - number of time periods that have passed

VALUE OF COMPOUNDING