Money Matters!

Citizens Bank®

Budgeting basics and how to manage your finances

What is a Budget?

A budget is a blueprint for spending and saving that helps you:

- Spend within your means
- Maintain good credit by paying bills on time
- Save for emergencies, retirement, a new car or other purchases
- Obtain financial freedom
- Keep focused on your financial goals
- Organize spending and savings so that both short-term and long-term goals are achievable
- Identify potential problems
- Creating financial awareness, which can prompt changes in costly buying behaviors

41%

of Americans use a budget even though it's one of the most effective ways to keep track of our finances

and just

13%

of a study of 1,000 had a 5 year plan for their finances

Sources: Source: Money.cnn.com, Maurie Backman for the Motley Fool

New York Post, "American are clueless when it comes to personal finance", Sam Paul, January 18, 2018

Citizens Bank®

Reasons People Choose Not to Budget

- Planning for short-term goals as opposed to long-term goals
- Time constraints
- Privacy concerns

"Financial peace isn't the acquisition of stuff. It's learning to live on less than you make, so you can give money back and have money to invest. You can't win until you do this."
Dave Ramsey, American businessman, author, radio host, television personality and motivational speaker.

Create Your Budget

Create your personal budget with these 5 steps:

1. Assess Your Financial Situation
2. Set Financial Goals
3. Build Your Budget
4. Use Credit Wisely
5. Stick to Your Budget

Step 1: Assess Your Financial Situation

Before you can create a budget you will need to assess your financial situation. A financial professional or online tools may be able to assist. Services offered will include:

- Determining how much your assets are worth
- Measuring your monthly after-tax income
- Calculating how much you owe and to whom
- Review Spending “Where is your money really going?”
- Fixed expenses; such as a rent, auto, or student loan payments
- Flexible expenses; such as food, clothing, and entertainment, vary from month to month.

Step 2: Set Financial Goals

- Determine your goals
- Categorize them as short or long-term goals
- Prioritize them in order of importance
- Determine how much is needed and by when

Short-term

1. Vacation
2. Home
3. Car
4. Marriage
5. Less Debt
6. Eating out

Long-term

1. Comfortable retirement
2. Protection for family
3. College
4. Vacation home
5. Repaying College Debt

Step 3: Build Your Budget

There are some free user friendly budgeting tools available online:

- Mint Budgeting
- PocketGuard Budget
- You Need a Budget
- Good Budget

- Make a list of your sources of income.
- Make a list of your expenses. Account for credit card balances.
- Calculate the difference: Are you saving money or borrowing money?

Monthly Income	
Pay	$3,400
Interest and Dividends	$100
Total Monthly Income	$3,500

Consider online calculators like: https://www.citizensbank.com/learning/monthly-budgeting-calculator.aspx

Sample Budget

Monthly Income	
Pay	$3,400
Interest and Dividends	$100
Total Monthly Income	$3,500

Monthly Expenses	
Housing	$1,000
Insurance	$100
Transportation	$200
Taxes	$600
Food	$350
Savings	**$100**
Charity	$100
Clothing	$100
Debt Repayments	$300
Entertainment/Travel	$200
Retirement Savings	$150
Personal Care	$100
Miscellaneous	$200
Total Monthly Expenses	$3,500

Save First, Spend Second

Citizens Bank®

Step 4: Control Your Swiping

Pay your bills on time

Payment history accounts for roughly 35% of a FICO score.

Spend responsibly

Don't live beyond your means. Credit cards are not "free money"

Keep your credit utilization low

Keep your spending in check. Pay your bill on time. Pay your bill twice per month or double the amount due.

The New York Times reported that the share of Americans under 35 years old with credit card debt is the lowest it's been since 1989.

Credit Cards, a Fact of Life

Use them wisely

- Emergencies
- Build credit, charge only what you can pay-off each month

- $800 on credit card, *charge nothing else*, 15% interest rate, 2% minimum payment:
  - Minimum payment of $16 each month, it will take you 11 years, 10 months to pay off the $800.
  - Total paid $1,589.64
  - Pay $50 each month, it will take you 1.5 years to pay off. Total paid $898.15

Step 5: Stick to Your Budget

Commit to Your Budget and Stick with It

- Keep track of income and spending
- Compare actual numbers vs. planned numbers monthly

Monitor Your Budget

- Update your budget to reflect:
- Goal changes
- Changes in income
- Changes in expenses
- Life events

Budgeting Tips

- Understand the Goal
- Track Spending for a Week
- Use the 3-Category Budget
- Charge It
- Save First
- Try the 50/20/30 Plan
- Use the Right Tools

50/20/30 Rule

One of several budgeting “best practices”

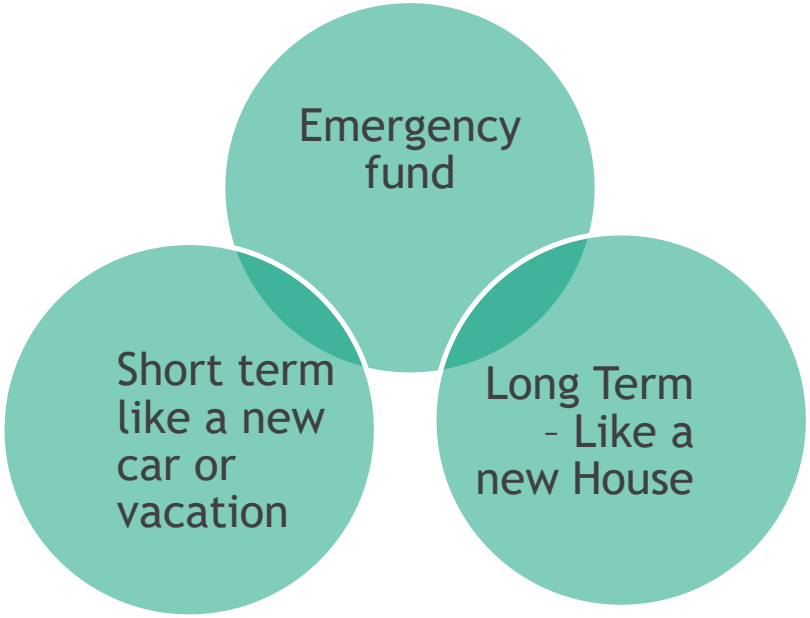
- Spend 50% on needs
  - Rent/mortgage, utilities, insurance, food
- Allocate 20% to savings
  - Build emergency fund, contribute to retirement
- Spend 30% on wants
  - Eating out, entertainment, vacations

Manage Bank Accounts

Monitor Checking Accounts

- Make sure all deposits are reflected in your account
  - Keep track via paper or mobile app
- Record all withdrawals/debit card transactions
  - Be sure to track ATM withdrawals and fees
  - Record automatic payments, debit card purchases
  - Catch any mistakes early
  - Write checks? Keep track of outstanding transactions

Separate Savings Goals



Don’t put off Saving for Retirement

Your future self may need some help!

Let’s say you’re 25 and you decide to put away $3,000 a year for 10 years in a tax-deferred retirement account with a 7% annual return.

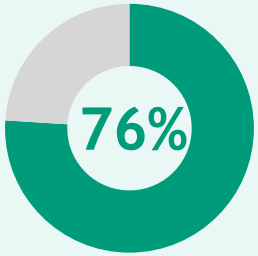
Then, after those 10 years, you decide to stop adding money, instead letting your previous contributions grow.

Your $30,000 in contributions ($3,000 a year for 10 years) will have grown to $338,000 by the time you withdraw your funds at 65.

Citizens Bank®

Remember to Monitor and Manage Your Credit

Because they can make a difference in achieving critical life events, consider checking your credit report before applying for a new job, a student loan or even a mortgage



OF ADULTS AGES 18 TO 24 SAY THEY NEVER CHECK THEIR CREDIT SCORES[1]

YOU ARE ENTITLED TO REQUEST A FREE COPY OF YOUR CREDIT REPORT ANNUALLY

HOW TO ACCESS YOUR CREDIT REPORT

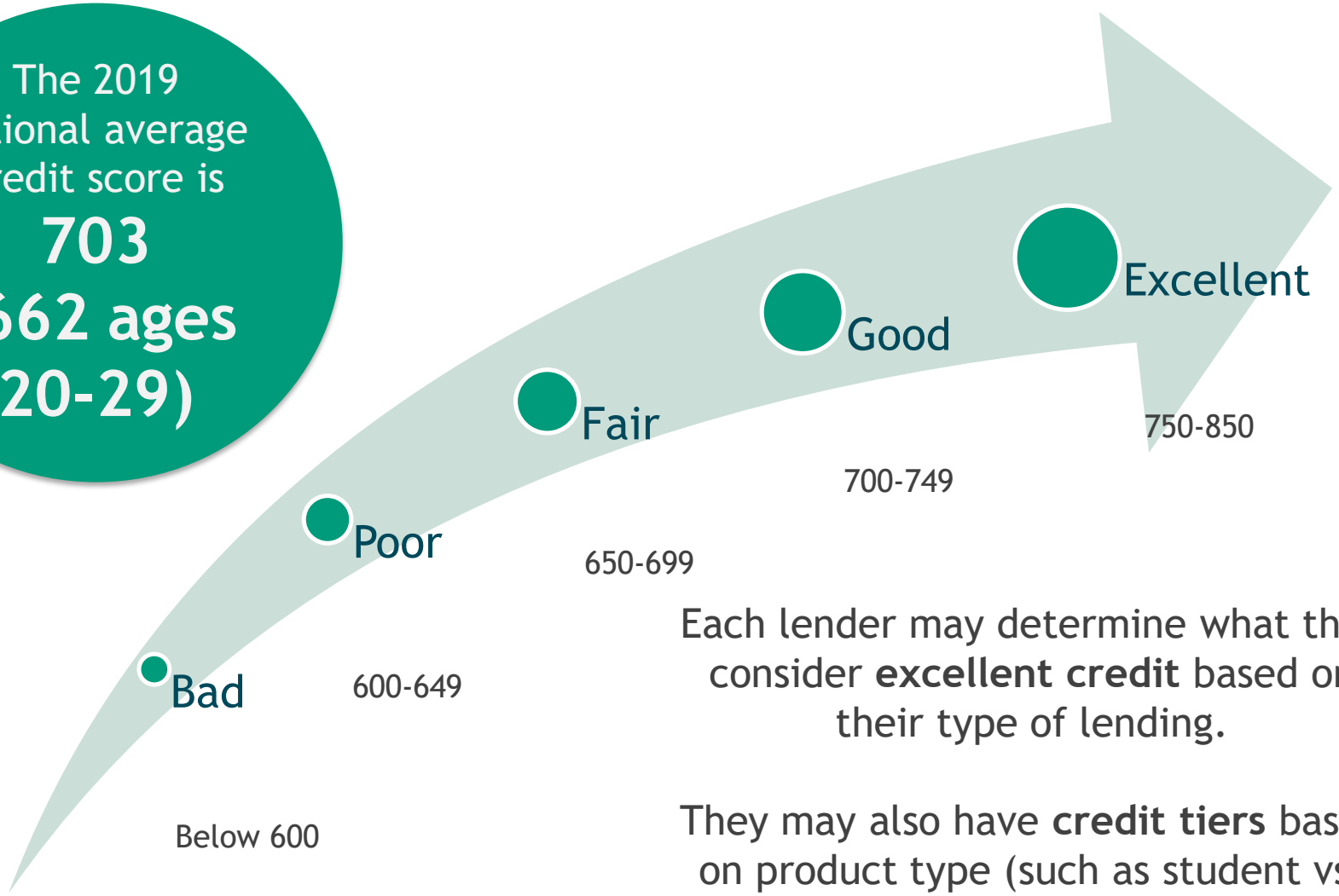
- ✓ Request a free copy from each of the three major credit reporting agencies: Equifax®, Experian® and TransUnion®
- ✓ Visit **AnnualCreditReport.com** or call 1-877-322-8228
- ✓ You may request a free copy from each credit bureau once each year
- ✓ Stagger your request from one agency at a time to check your credit more frequently – every four months
- ✓ Beware of advertised so-called "free credit reports"! Many are scams or require enrollment in a program that cost money
- ✓ Look carefully for any accounts you don't recognize and make sure all information is accurate

[1]https://www.lexingtonlaw.com/blog/news/american-financial-tracking-poll.html

Citizens Bank®

Is There An Average Credit Score?

The 2019 national average credit score is **703 (662 ages 20-29)**



Each lender may determine what they consider **excellent credit** based on their type of lending.

They may also have **credit tiers** based on product type (such as student vs. parent).

Citizens Bank®

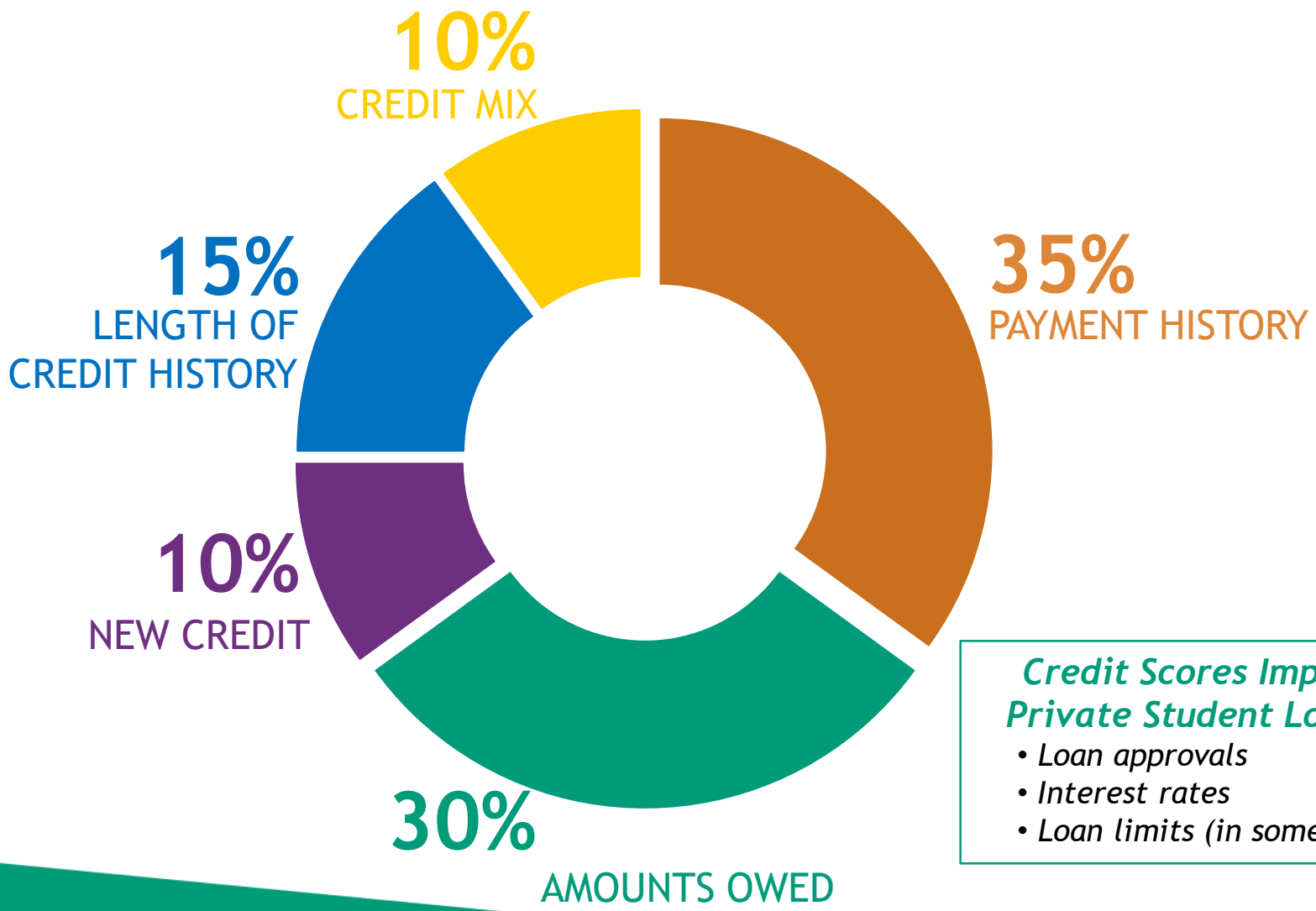
The Higher Your Credit Score, the Lower Your Loan Payments

30-year fixed mortgage Loan amount $300,000		
Credit score	Annual percentage rate (national average)	Monthly payment
760-850	3.355%	$1,323
700-759	3.577%	$1,360
680-699	3.754%	$1,390
660-679	3.968%	$1,427
640-659	4.398%	$1,502
620-639	4.944%	$1,600

Source: myfico.com – Mortgage rates as of November 4, 2019; for illustrative purposes only

What Determines A Credit Score?

FICO Scores are calculated using five pieces of credit data from your credit report, so it's important to maintain these items to protect and build your credit



Credit Scores Impact Private Student Loan…

- *Loan approvals*
- *Interest rates*
- *Loan limits (in some cases)*

https://www.myfico.com/credit-education/whats-in-your-credit-score

Citizens Bank®

Who Is Looking At Your Credit?

Lenders

Cell phone & utility companies

Landlords

Insurance Companies

Employers

A ***soft inquiry*** occurs when a your credit report is checked as a background check for pre-approvals, employment, renting, opening a bank account, etc. They can occur without your permission but don't affect your credit score

A ***hard inquiry*** occurs when you apply for credit such as a credit card, auto loan, student loan, mortgage, etc. They require your permission and can typically affect your credit score for two years.

Tip: *Shopping around for the best rate on a loan? Do it within a 14 day period so credit bureaus will recognize that you are comparison shopping. It will have less impact your score.*

Good Financial Habits

Live within your means	• Avoid stretching yourself to the point where you are jeopardizing your ability to meet other financial goals.
Save first, spend second	• Set up Automatic deductions from your paycheck.
Track spending	• Watch the pennies and the dollars will take care of themselves.
Control your swiping	• If you don't see the money physically leaving your possession…
Separate Savings Goals	• Have goal specific accounts - one for emergencies, one for the down payment on a house, and one for vacation.
Don't put off retirement	• 37% of Americans 50 to 64 years old say their biggest financial regret is waiting too long to save
Consistently re-evaluate your plan.	• Don't be afraid to "go under the hood" to see where you are succeeding and where you need improvement.

Develop a Personal Action Plan

Action step	When	Done
Establish goals	Next 3 days	☐
Track my spending habits	Next 7 days	☐
Check your credit report from at least one agency	Next 14 days	☐
Create and start following a budget	Next 30 days	☐
Revisit budget as you get insights into your spending behaviors	6 months	☐

Online Resources:

- www.citizensbank.com/learning/overview.aspx
- www.citizensbank.com/student-services
- www.mint.com
- www.myfico.com
- www.annualcreditreport.com

Citizens Bank Legal Disclaimer

The information presented in these materials are intended and written to be educational only. This presentation is not intended or written to be relied on for tax or legal advice. We are not in the business of providing tax or legal advice. Please seek advice based on your particular situation from an independent tax or legal advisor.

Member FDIC. Equal Housing Lender. Citizens Bank® is a brand name of Citizens Bank, N.A. (NMLS ID #433960) and Citizens Bank of Pennsylvania (NMLS #522615).