MoneyWise Presentation Materials

Major Purchases and Having Adequate Insurance Day 3: Modules 5 & 6

Purpose

The purpose of these presentations on personal finance is to help you understand that personal finance is not separate from, but simply part of, the gospel of Jesus Christ. We have been commanded to be wise stewards over the things we have been blessed with. These presentations will help you in that stewardship.

Topics and Assignments

<u>Module 5: Major Purchases and Buying on Credit: The Home and Auto Decisions</u> Recommended Readings (on the website at http://personalfinance.byu.edu):

- Online Reading 5. Major Purchases and Buying on Credit: Home/Auto Decisions
- Reading 5.1 William E. Berrett, "I Have a Question," Ensign, Oct. 1979, 29.
- Reading 5.2 Ned Hill, "How to Spot a Ponzi," Marriott Magazine, Fall 2007, pp. 8-13
- MoneyWise/Young Married Manual: Chapter 6. Understanding Credit Chapter 15. The Home Decision I & II Chapter 16. The Auto Decision

Tools

- Exhibit 5.1 Home Loan Comparison with Prepayment and Refinancing
- Exhibit 5.2 Maximum Mortgage Payments for LDS

Websites/Reference Readings

- o Food storage, http://providentliving.com
- O Home buying, http://smartmoney.com/home/, http://smartmoney.com/home/)
- O Automobile Reports, www.consumerreports.org, www.edmunds.com, www.kbb.com

Module 6: Having Adequate Insurance: Protecting You and Your Loved Ones

Recommended Readings (on the website at http://personalfinance.byu.edu):

- Online Reading 6. Having Adequate Insurance: Protecting You and Loved Ones
- Reading 6.1 Terry H. Buckner, "Property, Casualty, and Health Insurance," Marriott School Magazine, Summer 2005, pp. 8-13
- Reading 6.2 William S. Bennett, Jr., "Personal Insurance," Marriott School Magazine, Winter 2005, pp. 5-9

Tools

• Exhibit 6.1 Calculating Life Insurance Needs

Website/Reference Readings

MoneyWise/Young Married Manual: Chapter 11. Insurance Basics
 Chapter 12. Life Insurance Chapter 13. Health, LTC and Disability
 Chapter 14. Auto, Home and Liability

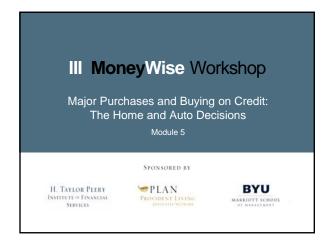
The *MoneyWise Reference Material Manual* and learning outcomes, chapter readings, slide presentations, videos, assignments, and recommended readings are freely available at the BYU Marriott School of Management's Personal Finance website at http://personalfinance.byu.edu (Intermediate Lessons and MoneyWise Financial Workshops). Please feel free to share this resource with others.

MoneyWise Notes from Day 3 Date:_____

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MoneyWise Module 5

Major Purchases and Buying on Credit: The Home and Auto Decisions





1. Financial Perspectives: Debt

President James E. Faust stated:

Over the years the wise counsel of our leaders has been to avoid debt except for the purchase of a home or to pay for an education. I have not heard any of the prophets change this counsel.

(James E. Faust, "Doing the Best Things in the Worst Times," Ensign, Aug. 1984, 41)

Consumer and credit card debt are not included in that short list of acceptable debt

Perspective • Credit • Protect Identity • Home • Auto

3

Financial Perspectives: Your Finances

President Gordon B. Hinckley said:

Look to the condition of your finances. I urge you to be modest in your expenditures; discipline yourself in your purchases to avoid debt to the extent possible. Pay off debt as quickly as you can, and free yourself from bondage. . . If you have paid your debts, if you have a reserve, even though it be small, then should storms howl about your head, you will have shelter for your wives and children and peace in your hearts. That's all I have to say about it, but I wish to say it with all the emphasis of which I am capable.

(Contact B. Hindley, To the Boys and Men." Emign, Nov. 1988, p. 51)

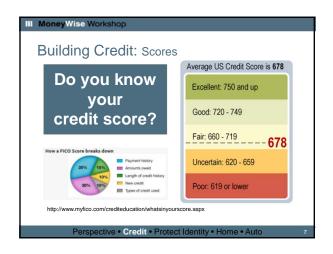
2. Building Credit: Your Credit Score

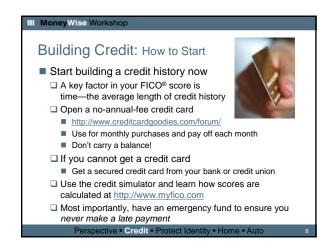
It's not just for mortgages anymore
Landlords and employers check
Cell phone and insurance companies check
What is a FICO® credit score?
A FICO® score is your credit rating – a grade on how you have managed credit in the past
Lenders use them along with other factors to approve loans and set interest rates
You can get a credit score using credit report data from the major credit bureaus (Experian, TransUnion, and Equifax)

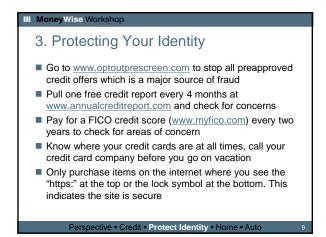
Perspective * Credit * Protect Identity * Home * Auto

MoneyWise Workshop Building Credit: What's On Your Credit Report? ■ FICO® scores are based on your credit report ☐ FICO® scores are not free, but your credit report is □ http://www.annualcreditreport.com ■ Be careful of other sites/pop-up ads offering free reports Can obtain one each year from each bureau (3 total) Good idea to check periodically Only gives transaction history, no actual score □ http://www.myfico.com ■ Look for the "FICO® Standard" report under the "Check My FICO Score" tab ■ Use Google and type "Promotional Code FICO" for coupons Cost is \$19.95 before coupons Includes use of credit simulator for 30 days tive • Credit • Protect Ider

MoneyWise Module 5 Major Purchases and Buying on Credit: The Home and Auto Decisions







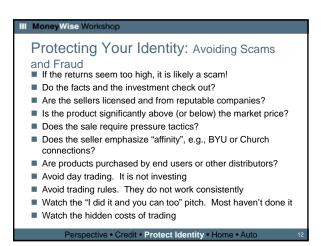


Protecting Your Identity: No Shortcuts

There are no shortcuts to financial security. There are no getrich-quick schemes that work. Perhaps none need the principle of balance in their lives more than those who are driven toward accumulating "things" in this world. Do not trust your money to others without a thorough evaluation of any proposed investment. Our people have lost far too much money by trusting their assets to others. In my judgment, we never will have balance in our lives unless our finances are securely under control.

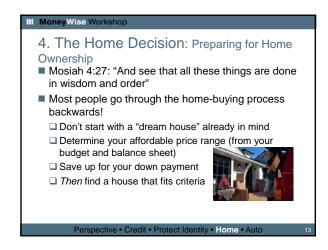
(Elder M. Russell Ballard, "Keeping Life's Demands in Balance," Ensign, May 1987, 13.)

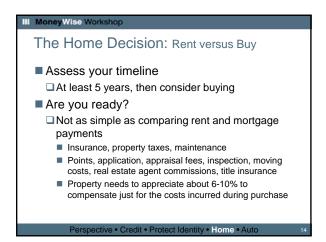
Exhibit 3.1: How to Spot a Ponzi Scheme



MoneyWise Module 5

Major Purchases and Buying on Credit: The Home and Auto Decisions





The Home Decision: Determining what you can afford
■ The wisdom of starting small
□ Consider a "starter home"
□ Potential interest savings if you let the house grow with you

Don't let the lender tell you what you can afford!
□ Do I understand front- and back-end ratios for Christians?
□ Are we saving enough to reach our retirement goals?
□ How is our emergency fund and how much do we want to spend on fun things such as travel and entertainment?
□ How willing are we to curb expenses to meet a large mortgage payment and other housing costs?
□ How much of our children's college expenses, missions, and weddings do we want to pay for?

Perspective • Credit • Protect Identity • Home • Auto 15

The Home Decision: PMI and Your Down
Payment
PMI (private mortgage insurance)
About \$40/month on \$100,000 home with 10% down
Source: www.ftc.gov
20% down avoids PMI
FHA and Utah Housing offer below-market-rate
loans with only 3.5% down
http://www.utahhousingcorp.org
Does not avoid PMI though
Avoid 100% financing alternatives
Probably a good sign you're not ready for home ownership

The Home Decision: Preparing to Get a Loan

More than just a FICO® score
Lenders use their own scoring system to approve loans and determine what interest rate to offer

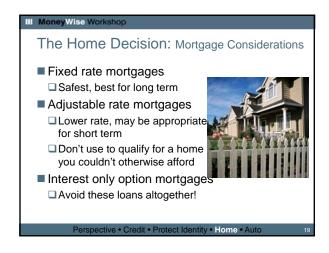
Lenders look at
Housing expense ratio (front-end ratio)
Total mortgage principle and interest and property taxes and insurance is less than 28% of gross monthly income
Debt Obligations Ratio (back-end ratio)
Total monthly mortgage principle and interest, property taxes and insurance, and debt obligations is less than 36%
Loan to value
Recent credit history
Your payment history is counted twice
Perspective • Credit • Protect Identity • Home • Auto

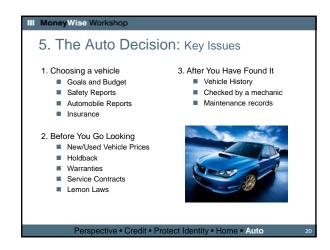
The Home Decision: Get Pre-Approved

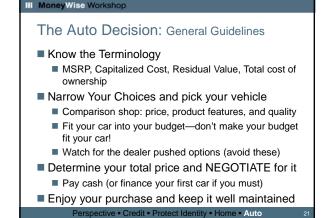
Get pre-approved
Shows seller you are a serious buyer
"Pre-approved" is different from "pre-qualified"

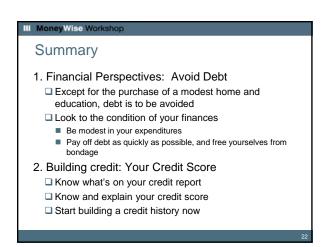
Clear up credit report problems
Don't apply for any new credit before shopping for mortgages
Be upfront about problems
Shop bank, credit union, online for rates
http://www.bankrate.com

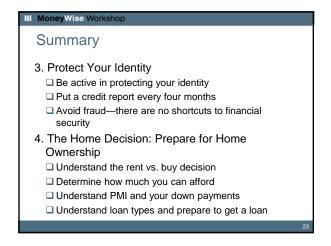
MoneyWise Module 5 Major Purchases and Buying on Credit: The Home and Auto Decisions

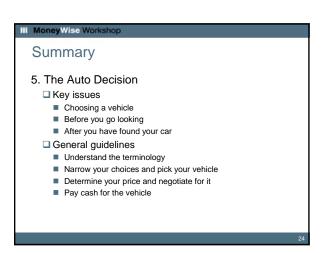




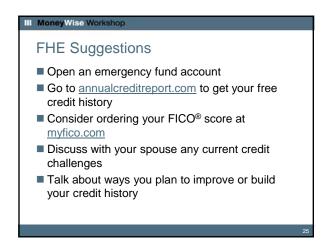


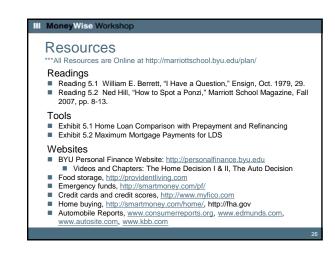






MoneyWise Module 5 Major Purchases and Buying on Credit: The Home and Auto Decisions







MoneyWise Notes

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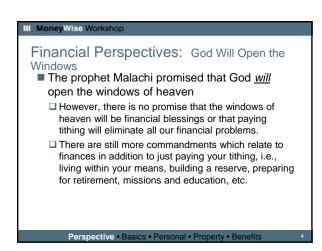
1. Financial Perspectives: Tithing

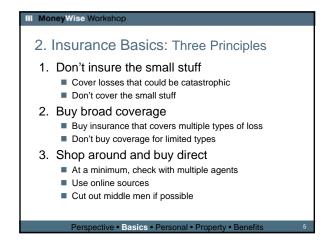
1. The prophet Malachi prophesied:

1. Bring ye all the tithes into the storehouse, . . . and prove me now herewith, saith the Lord of hosts, if I will not open you the windows of heaven (Malachi 3:10).

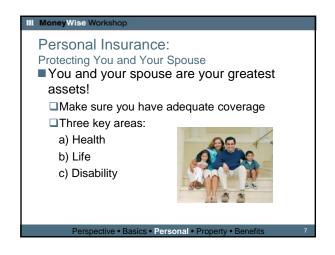
2. Paying tithing first shows that we put the Lord first in our lives

3. It doesn't it say that if we pay our tithing, we will get all the financial blessings that we need, regardless of any learning, thought, application, hard work or effort on our part.

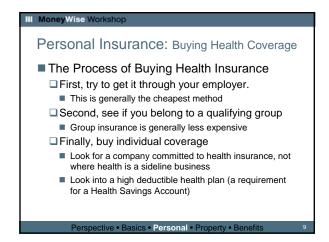














Personal Insurance: Life

How much is your life worth?

Why have life insurance?

Who needs life insurance?

How much life insurance is needed?

10-20 times income is recommended (the higher end)

Do you need life insurance your entire life?

Which type of life insurance: Term versus cash value?

Term is much less expensive and gives the required coverage (recommend 10-20 year level convertible term)

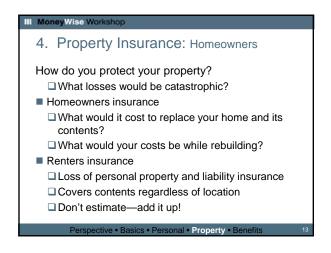
Be very careful mixing insurance and investments

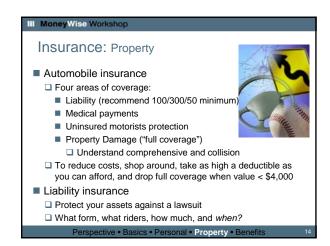
Know what you are buying—it is expensive to change Perspective * Basics * Personal * Property * Benefits

Personal Insurance: Disability

How do you protect your income stream?

Like life insurance, disability insurance should cover a portion of the loss of income
Typically provided by employers
Your coverage should replace about 60% of your income
The longer the waiting period, the cheaper the policy
You are more likely to become disabled than die prematurely

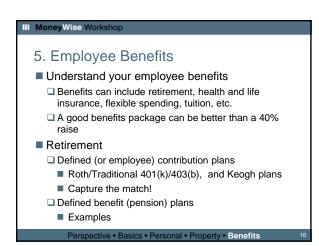




Adequate Insurance: Financial Priority 7

Take two minutes to talk as a group or couple
What is the importance of insurance?
If married, how much life insurance is needed? Which kind? (convertible term is recommended)
What kind of health insurance should you have?
What should your auto limits be? (100/300/100 minimum recommended)
Write these on your "Financial Priorities" sheet

Remember
Always you and your spouse are equal partners
Always assume you both are doing your very best



Employee Benefits: Other Benefits

Health Care
HMOs, PPOs,
Health Savings Accounts (HSAs)

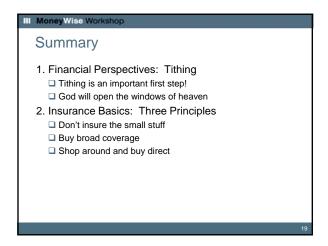
Flexible Spending
Examples (healthcare, childcare)
Tax Advantages

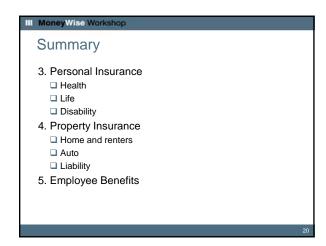
Group Life
Basic and supplemental
Tuition Reimbursement

Teach Your Children: Financial Priority 8

Take two minutes to talk as a group or couple
After all this information, what will you teach your children?
What are the important lessons that your children should understand?
What things can you teach at this stage of their lives?
How are you going to teach them and make it fun?

Remember
Always you and your spouse are equal partners
Always assume you both are doing your very best
Perspective * Basics * Personal * Property * Benefits





Conclusion to the Series

Personal finance is a five step process;

Educate yourself to your options

Decide on your goals

Commit to how you will accomplish them
Believe you can accomplish your goals with God's help
Achieve

Teach Your children — Financial Priority 8

Once you learn these things, it is imperative that we teach our children
Help them, work with them, and show them by your actions that you believe these things
Goals could include a FHE Lesson on finances, budgets, etc.

FHE Suggestions

Review sections of Personal Finance for Dummies applicable to your situation
Check current auto coverage, check rates
Call two competitors for quotes
Check health insurance rates
Determine how much personal (health, life, and disability) and property insurance you need, check rates, etc.

MoneyWise Workshop Resources ***All Resources are Online at http://marriottschool.byu.edu/plan/ and at ersonalfinance.byu.edu Readings Reading 6.1 Terry H. Buckner, "Property, Casualty, and Health Insurance," Marriott School Magazine, Summer 2005, pp. 8-13
Reading 6.2 William S. Bennett, Jr., CLU, ChFC, "Personal Insurance," Marriott School Magazine, Winter 2005, pp. 5-9 ■ The Waterslide video (0:49) ■ Videos of the Complete College Course (Insurance Lessons 12 and 13) Websites ■ BYU Personal Finance Website: http://personalfinance.byu.edu ■ MoneyWise Reference Manual: Chapters on Insurance 1: Basics; Insurance 2: Life Insurance; Insurance 3: Health, Long-term Care, and Disability Insurance; and Insurance 4: Auto, Homeowners and Liability Insurance

