CHAPTER 1
UNDERSTANDING PERSONAL FINANCE

I. LEARNING OBJECTIVES
A. Use the building blocks to achieving financial success.
B. Understand how the economy affects your personal financial success.
C. Apply economic principles when making financial decisions.
D. Perform time value of money calculations in personal financial decision making.
E. Make smart decisions about your employee benefits.
F. Identify the professional qualifications of providers of financial advice.

II. BUILDING BLOCKS TO ACHIEVING PERSONAL FINANCIAL SUCCESS
A. Spend less so you borrow less and save and invest more.
B. Define your own financial success and happiness
C. Use the building blocks of financial success. (See Fig 1-1 on page 6)
   1. Establish your financial bases: banking, brokerage, insurance, job benefits
   2. Define your goals (Short and Long-term), budget, reserve funds
   3. Manage day-to-day expenses
   4. Handling credit, savings, none household costs
   5. Manage your investments

III. LEARN HOW THE ECONOMY IMPACTS YOUR FINANCIAL SUCCESS
A. The importance of understanding the business cycle
B. Learning about the indicators: leading, coincident, lagging
C. Understanding the impact inflation on earnings, values, investment returns

IV. LEARN TO APPLY PRINCIPLES OF ECONOMICS
A. Opportunity cost
B. Marginal utility of [additional income and living costs]
C. Impact of taxes on financial decisions
V. **TIME VALUE OF MONEY PRINCIPLES**
   A. Simple interest vs. Compound interest
   B. Present values of future income
   C. Future values of savings and investments

VI. **TIME VALUE AND WEALTH ACCUMULATION**
   A. There are no real “get rich quick” schemes
   B. Wealth accumulation is the endgame of planning and discipline
   C. Making smart decisions at work
      6. Choosing among tax-free cafeteria plan benefits
      7. Making health plan decisions
      8. Using flexible spending accounts
      9. Employer life, disability and long-term care insurance plans
      10. Using your employer's retirement plan
   D. Know how and where to get help (need to have goals in mind)

VII. **HOMEWORK**
   A. Do The Math: 1, 2 a & b, 3 b & d
   B. Being you own Personal Financial Manager: 1, 6
I. LEARNING OBJECTIVES
   A. Identify the steps in successful career planning.
   B. Analyze the financial and legal aspects of employment.
   C. Practice effective employment search strategies.

II. DEVELOPING A CAREER PLAN
   A. Personal assessment of values and interests
   B. Identifying possible career fields and paths
   C. Self-preparation for career path: education, experience, ability, energy
   D. Taking advantage of networking opportunities (importance of college friendships)
   E. Pay attention to changing opportunities and employment trends
   F. Taking that first step

III. FINANCIAL AND LEGAL ASPECTS OF EMPLOYMENT
   A. Value of employee benefits
   B. Know your employer’s legal obligations

IV. EFFECTIVE EMPLOYMENT SEARCH STRATEGIES
   A. An effective resume is job 1! An effective and brief cover letter is job 2!
   B. Write your resume with the target employer in mind
   C. Match your experience with job opportunities
   D. Develop good interview skills and manners
      See “DID YOU KNOW” at bottom of page 55
   E. Research your target employers
   F. Have reference letters ready (prior contact with references important)
   G. Honesty is always the best policy
   H. Learn how to negotiate benefit package (pay, retirement plans, medical benefits, etc.)
V. WHERE TO FIND EMPLOYMENT OPPORTUNITIES
   A. Internships
   B. Career Fairs
   C. Employment Agencies
   D. Internet / newspapers / business magazines

VI. HOMEWORK
   A. Do the Math: 2, 3
   B. Being you own Personal Financial Manager: 1, 2
CHAPTER 3  
FINANCIAL STATEMENTS, TOOLS, AND BUDGETS

I. **LEARNING OBJECTIVES**
   A. Identify your financial values, goals, and strategies.
   B. Use the balance sheet and the cash-flow statements to measure your financial health and progress.
   C. Evaluate your financial strength and progress using financial ratios.
   D. Collect and organize the financial records necessary for managing your personal finances.
   E. Achieve your financial goals through budgeting.

II. **IDENTIFYING FINANCIAL VALUES, GOALS, AND STRATEGIES**
   A. How will you define financial success?
   B. Setting achievable financial goals
      1. Spending
      2. Risk Management (medical, disability, life, liability)
      3. Capital accumulation
   C. How are wealth-building principles related to financial goals?
   D. What strategies make sense given your goals and wealth-building principles?

III. **IMPORTANCE OF FINANCIAL STATEMENTS**
   A. The Personal Balance Sheet
      1. Assets: monetary, real, financial
      2. Liabilities: installment debt (S-T, L-T), credit cards
      3. Net Worth: increase assets, reduce liabilities
   B. Cash Flow Statement (Cash Budget) See table 3-3 on page 76
      1. Income
      2. Expenses: fixed, variable
      3. Savings and/or Investments
      4. Surplus: Discretionary Disposable Income uses
IV. TRACKING FINANCIAL PERFORMANCE

A. Using Financial ratios
   1. Liquidity Ratio: ability to pay your bills
   2. Debt ratio: total debt to total assets
   3. Debt Service to Income
   4. Debt payments to disposable income
   5. Investment assets to Total assets

B. Importance of keeping Good Records
   1. Helps in achieving goals
   2. Useful at tax time
   3. Removes guesswork when planning the future

V. COMPONENTS OF BUDGETING

A. Living expenses
B. Debt service (especially credit card and installment purchases)
C. Savings/investments

VI. HOMEWORK

A. Do the Math: 2, 5
CHAPTER 4
MANAGING INCOME TAXES

I. LEARNING OBJECTIVES
   A. Explain the nature of progressive income taxes and the marginal tax rate.
   B. Differentiate among the eight steps involved in calculating your federal income taxes.
   C. Use appropriate strategies to avoid overpayment of income taxes.

II. PROGRESSIVE INCOME TAXES AND THE MARGINAL TAX RATE
   A. Federal income tax is taxed progressively, making individuals pay more and at a higher percentage rate on higher incomes.
      Figure 4-1 illustrates how income is taxed (page 107)
   B. The marginal tax rate is the rate applied to the last dollar earned.
      Table 4-1 shows the tax brackets (page 107)
   C. The marginal tax rate affects many financial decisions.
   D. Your effective marginal tax rate includes state income and Social Security taxes.
   E. Your average tax rate is much lower than your marginal tax rate.

III. CALCULATING YOUR FEDERAL INCOME TAXES
   A. Selecting a tax Form: 1040EZ, 1040A, 1040 (see page 121)
   B. General Steps
      1. Determine total income
      2. Subtract exclusions and adjustments
      3. Subtract deductions (Schedule A) and personal exemptions
      4. Determine tax liability (see instructions on IRS form or tax tables)
      5. Subtract credits (typically amounts withheld from paychecks by employer)
      6. Calculate amount owed or refund due
   C. Filing electronically gets you a quick refund if due.
IV. STRATEGIES TO REDUCE TAX BURDEN

A. Contributions to [IRS] qualified employer retirement plans
B. Tax sheltered investments (avoids tax liability on gains until withdrawn)
C. Other tax preference plans: e.g. FSA
D. Managed real estate investments (income producing properties)

V. HOMEWORK

A. Do the Math: 1, 3, 4
CHAPTER 5
MANAGING CHECKING AND SAVINGS ACCOUNTS

I. LEARNING OBJECTIVES
A. Identify the tools of monetary asset management and sources of such financial services.
B. Earn interest and pay no or low fees on your checking accounts.
C. Make the best use of the benefits of savings accounts.
D. Explain the importance of placing excess funds in a money market account.
E. Describe electronic money management including your legal protections.
F. Discuss your personal finances and money management more effectively with loved ones

II. MONETARY ASSET MANAGEMENT
A. Three Areas (tools) for Monetary Asset Management
   1. Checking Accounts: preference for interest paying and low costs
   2. Savings Accounts: monthly or quarterly compounding at competitive rates
   3. Money market accounts: typically daily compounding
B. Providers of Monetary Asset Management Services
   1. Depository institutions (commercial banks, savings & loan, credit unions
      Major benefit: balances insured up to $250,000 per account*
   2. Mutual funds (investment companies like Vanguard and Fidelity)
   3. Financial Services companies (American Express, A.G Edwards)
   4. Insurance companies
C. Interest-Earning Checking Accounts; mainly at credit unions
D. Savings Banks: passbook savings accounts, Certificates of Deposit (CD)
E. Money Market Accounts: many offer check writing privileges

III. ELECTRONIC MONEY MANAGEMENT
A. Online Banking
   1. Improves ability to track deposits, disbursements
   2. Makes identifying ID theft quick and easy.
   3. Many banks provide this service free of charge
B. Paying bills on line
   1. Payment verification
   2. Can be set up to be automatic (each month)
   3. Aids in record keeping and budgeting
C. Protecting your electronic accounts
   1. Do all banking from home computer
   2. Be careful of free Wi-Fi sites. Passwords are easily stolen by hackers
   3. Change passwords regularly (every 3 months).
   4. Don’t use personal names or places. Mix letters, numbers and symbols.

IV. THE PSYCHOLOGY OF MONEY
   A. Desperate times frequent drive bad decisions: lack of money is #1 stress maker
   B. Never reveal personal financial details to friends or casual acquaintances
      Dangers of social network sites
   C. Do Opposites Attract? Savers vs. Spenders
   D. Being careless with personal information: shred documents containing sensitive data

V. HOMEWORK
   A. Do the Math: 1, 4, 5
CHAPTER 6
BUILDING AND MAINTAINING GOOD CREDIT

I. LEARNING OBJECTIVES
   A. Explain reasons for and against using credit.
   B. Establish your own debt limit.
   C. Achieve a good credit reputation.
   D. Describe common sources of consumer credit.
   E. Identify signs of over-indebtedness and describe options available for debt relief.

II. USING CREDIT PROS AND CONS
   A. Positives
      1. Convenience
      2. Emergencies
      3. Making reservations
      4. Own expensive products sooner
      5. Take advantage of free credit
      6. Protections against fraud
      7. Obtain and education
   B. Negatives
      1. Credit reduces financial responsibility
      2. It is tempting to spend more
      3. Easy to become financially overstretched
      4. Interest is costly
      5. Potential for bankruptcy increases
   C. Privacy / Security Issues
      1. Offer no other personal information when using a credit card
      2. Check receipts against credit card statements (online access to account)
      3. Only give your card numbers when you initiate the contact
      4. Review your credit reports regularly
      5. Report lost or stolen cards or suspicious activity immediately
      6. ”Opt out” of account information sharing
      7. Do not respond to e-mail requests for account verification
      8. Place a security freeze on your credit bureau files
III. MANAGING DEBT

A. Debt payments-to-disposable income should not exceed 14% (see Table 6-1 page 175)
B. Debt-to-Equity ratio should not exceed 33% (see Table 6-2 page 176)
C. You should be able to eradicate non-mortgage debt in 4 years.
D. Student debt
   1. Choose the most advantageous repayment pattern allowed.
   2. Repay electronically.
   3. Make payments on-time, every time.
   4. Consolidate your student loans.

IV. OBTAINING CREDIT

A. Application to credit card / bank / finance company
B. Federal law imposes new standards on creditworthiness
C. Three Credit Bureaus: required to provide free credit reports every 4 months
   1. Trans Union (1-800-680-7289)
   2. Equifax (1-800-525-6285)
   3. Experian (1-800-397-3742)
D. Building a Good Credit History
   1. Have a checking and savings account
   2. Have telephone and utilities bill in your name
   3. Acquire and use a oil-company credit card
   4. Apply for bank credit card (at your bank is best)
   5. Get a small short-term cash loan and put it in savings account
   6. Pay-off student loans as quickly as possible
   7. Regularly monitor credit report
   8. Don’t cancel unused credit cards

V. SOURCES OF CONSUMER LOANS

A. Banks, Savings and Loan, Credit Unions (least expensive)
B. Finance Companies (most expensive)
C. Life Insurance companies against cash values of whole life policies
VI. DEALING WITH EXCESSIVE INDEBTEDNESS

A. Ten Danger Signs
   1. Not knowing how much you owe
   2. Running out of cash and using credit cards for essentials
   3. Paying the minimum amount each month
   4. Exceeding you credit limits
   5. Requesting additional cards or increased debt limits
   6. Paying late or skipping payments
   7. Taking add-on loans or credit card flipping
   8. Using debt-consolidation loans (home equity lines)
   9. Having your pay garnished by creditors
  10. Experiencing repossession or foreclosure

B. Handling the Indebtedness Problem
   1. Determine all your account balances and required monthly payments
   2. Focus your budget on debt reduction
   3. Contact your creditors
   4. Take on no new credit
   5. Refinance, if possible, to lower interest rates
   6. Avoid bad help; especially credit counselors that charge a fee
   7. Find good help

C. Ultimate Measures
   1. Filing for bankruptcy
   2. Chapter 13: Regular Income plan
   3. Chapter 7: Liquidation

VII. HOMEWORK

A. Do the Math: 3

B. Personal Financial Manager: 1 (getting a free copy of your credit report), 4
I. LEARNING OBJECTIVES
   A. Compare the common types of consumer credit including credit cards and installment loans.
   B. Describe the types and features of credit card accounts.
   C. Manage your credit card accounts to avoid fees and finance charges.
   D. Describe the important features of consumer installment loans.
   E. Calculate the interest and annual percentage rate on consumer loans.

II. TYPES OF CONSUMER CREDIT
   A. Installment credit: car loans
   B. Noninstallment credit: single payment loans
   C. Open-ended or revolving credit: credit cards
      1. Bank cards
      2. Retail merchant cards (Sears, Belk, etc.)
      3. Travel / Entertainment cards (airlines)
   D. Personal line of credit: home equity LOC most common
   E. Service credit: grace period to pay bill – charges accrue if late

III. COSTS OF CREDIT
   A. Annual fees
   B. Transaction fees
   C. Late payment, returned check, over limit (default rates imposed)
   D. Most cards are variable rate (tied to LIBOR or Prime)

IV. MANAGING CREDIT
   A. Examine Credit statements carefully
      1. Billing date: last day for which transactions are included in statement
      2. Due date: date when credit card company must receive payment to avoid penalties
      3. Transaction and Posting dates: chronological order of uses and charges
      4. Grace period: timer between use and payment to avoid charges
      5. Minimum payment amount: to keep credit account in good standing.
6. Transaction fees imposed for certain uses (international use)
7. Any credits for merchandise returned or orders cancelled

B. Interest charges accrue daily based on average daily balance

C. Correcting Errors in Billing Statements (per Fair Credit Billing Act)
   1. For charges greater than $50 made within 100 miles of home address
   2. Complaint must be filed within 60 days of billing date
   3. Creditors cannot impose penalties or interest or send dunning letters during the period the complaint is investigated.

D. Additional Action Steps
   1. Notify merchant of error
   2. Send written notice to credit card issuer
   3. Provide photocopies of disputed statements
   4. Withhold payment
   5. Follow-up with review of credit bureau file

V. CONSUMER INSTALLMENT LOANS
   A. May be secured (collateral or cosigner) or unsecured (good faith)
   B. Purchase Loan Installment Contracts
      1. Installment Purchase: title passes when contract signed.
      2. Conditional Sales: title passes when last payment received (UCC Form 1 ~ mechanics lien)
   C. Calculating Interest Charges
      1. Many installment contracts are amortized: monthly payment = principal + interest
      2. Merchant must inform of the APR on installment contracts
      3. Rule of 78s: Prepayment penalties. Read any installment contract very carefully if you plan to repay contract earlier than stated term.

VI. HOMEWORK
   A. Do the Math: 1 (parts a, b, c, d), 2
   B. Personal Financial Advisor: 1, 4
CHAPTER 8
VEHICLES AND OTHER MAJOR PURCHASES

I. LEARNING OBJECTIVES
   A. Steps in the planned buying process
   B. The process of comparison shopping
   C. Negotiate and decide effectively when making major purchases
   D. Use effective complaint procedures

II. PREPARATIONS BEFORE THE BUY DECISION
   A. Determine what you need in contrast to what you would like (need vs. want)
   B. Gather information on manufacturers’ various makes and models
      1. Features
      2. Warrantees
         a. Expressed vs. Implied
         b. Full vs. Limited (paying for parts and labor during warrantee period)
         c. Extended warrantees can be quite expensive and have restrictions
         d. Ditto for service contracts
      3. Mileage and maintenance costs
      4. New versus pre-owned (or refurbished)
      5. Trade-in value
   C. Comparison Shopping
      1. Finding the best deal
      2. Financing Costs

III. FACTORS AFFECTING THE FINANCING DECISION
   A. Leasing versus Buy
      1. Hidden costs of leasing: end of lease value is affected by mileage and damage
      2. Most leases require significant upfront cash (capital reduction)
      3. All leases have an implicit cost of capital
      4. You do not build equity (ownership)
      5. Leasing is best if costs can be written off a business expense
      6. Early termination fees can be quite costly
B. Balloon loans to be avoided
C. Gap insurance can be quite costly

IV. NEGOTIATING THE DEAL
A. An Informed buyer is a strong buyer
B. MSRP: Mfr. Suggested Retail Price (the fair trade price price)
C. Dealer Invoice price (what they “pay” to manufacturer)
D. Holdbacks reduce factory invoice to dealer
E. Interest rate may be subject to negotiation
F. Trade-in values affect cost of the deal and dealers ultimate profits
G. Make the final decision at home rather than the dealership

V. WHAT TO DO IF THE PURCHASE GOES SOUTH
A. Three day cooling off period works only if purchase occurs outside the store
B. Many states have lemon laws
C. Complaint may lead to mediation or arbitration
D. Small claims court ($500 to $2500 is typical range)

VI. HOMEWORK
A. Do the Math: 3, 4
B. On the ‘Net: 1, 2
CHAPTER 9
OBTAINING AFFORDABLE HOUSING

I. LEARNING OBJECTIVES
   A. Decide whether renting or owning your home is better for you.
   B. Explain the up-front and monthly costs of buying a home.
   C. Describe the steps in the home-buying process.
   D. Distinguish among the conventional and alternative ways of financing a home and list the advantages and disadvantages of each.
   E. Identify the key considerations when selling a home.

II. BUYING VERSUS RENTING A HOME
   A. Rented housing may be less expensive at first.
      1. Rent, deposits and related expenses
      2. Lease agreements protect all parties
      3. Tenants have rights even in the absence of a written lease
   B. Owned housing may be less expensive in the long term.
      1. Single-family dwellings
      2. Condominiums and Cooperatives
      3. Manufactured housing and mobile homes
   C. Who pays more—renters or owners?
      1. Based on initial cash flow, renters appear to win
      2. After taxes and appreciation, owners usually win
      3. See page 253 for an illustration of the rent versus buy decision

III. COSTS OF OWNING A HOME
   A. Pay up-front costs at the closing.
      1. The down payment
      2. One or more points. Each equals one percent of the amount borrowed
      3. Attorney fees—Don't buy a home without one
      4. Title search and insurance
      5. Miscellaneous fees such as a loan origination fee, home inspection and appraisal fee
   B. Monthly ongoing payments include principal (P) and interest (I).
      1. Mortgage principal and interest are the first two items of the acronym PITI
      2. Mortgage insurance is usually required if the loan-to-value ratio exceeds 80 percent
3. Insurance programs are available for those who make a low down payment
   a. PMI
   b. FHA mortgage insurance
   c. VA mortgage insurance
   d. State/local mortgage assistance programs
4. Home warranty insurance protects against some defects.

C. Some fees are paid both up-front and monthly.
   1. Real estate property taxes (T) are based on the assessed value of the home
   2. Homeowner’s insurance protect the home and personal property

D. The realities of the market 2012
   1. Mortgage rates are at historic lows
   2. Housing prices are significantly lower than in 2006
   3. The housing crisis has made it more difficult to obtain financing
   4. Lenders want buyers to have more “skin in the game” = larger down payments

IV. PREPARING TO BUY A HOME
A. Get your finances in order.
   1. Clean up your credit history
   2. Use internet resources to estimate monthly housing costs
   3. Fit the housing costs into your budget
B. Prequalify for a mortgage.
   1. The front-end ratio: maximum allowable housing expense ratio ~ 25 – 29% of Gross Monthly Income
   2. The back-end ratio: maximum debt-service burden ~ 33 – 41% of GMI
   See page 262 to determine the income needed to qualify for a mortgage (read carefully)
C. Search for a home on-line and in person.
D. Agree to terms with a seller.
   1. Make an offer to buy backed by earnest money
   2. Respond to the counteroffer
   3. Negotiate and sign a purchase contract
E. The role of real estate agents—buyer versus seller agents.
F. Formally apply for a mortgage loan.
G. Prepare for the closing.
1. Hire your own inspector
2. Hire an attorney *

* The process may be slightly different when dealing with an online mortgage broker. These closing do not involve an attorney but are handled by an agent empowered by the lender to execute the closing in accordance with state and federal regulations.

V. **FINANCING THE PURCHASE**

A. Mathematics of Mortgages
   1. Payments consist of Principal and Interest
   2. Over the life of the mortgage, principal portions will increase, interest proportion will decrease. See Figure 9-2 and Table 9-2 on page 269.

B. Three Factors affect the magnitude of the monthly payment
   1. The amount borrowed
   2. The interest rate
   3. The length of the loan
      a. Table 9-4 can be used to estimate mortgage loan payments for various amounts borrowed
      b. Table 9-5 illustrates how changing the time period and interest rate affects the monthly payment on a mortgage loan

C. Conventional Mortgages
   1. A fixed-rate, fixed-term, fixed-payment loan
   2. Typically require 10 to 20% cash down payment
   3. Loans offer good loan-to-value ratios for lenders

D. Adjustable Rate Mortgages (ARM)
   1. Rates vary over time as interest rates vary
   2. Many have life time caps (typically 6%)
   3. All will have yearly limits to increases in rates (2 to 5% according to text)

E. Other Types of Mortgages
   1. Graduated-Payment: payments get larger over time
   2. Seller financed (problematic for both seller and buyer)
   3. Reverse mortgage (older home owners needing additional monthly $$$)

VI. **SELLING A HOME**

A. Using a real estate broker: commissions run 5 - 6% of sale price

B. For Sale by Owner (FSBO) – typically online and much less costly to seller
VII. HOMEWORK

A. Do the Math: 1 (parts a & b), 2 (parts a & b)

B. On the Net: 1, 2