

# FINANCIAL PEACE

A biblical step-by-step approach to success with money & personal finances.

Lesson #7



## TODAY'S SUBJECTS

- I. Some answers to really good questions.
- II. Deceptive marketing practices used to sell debt.

# QUESTION #1

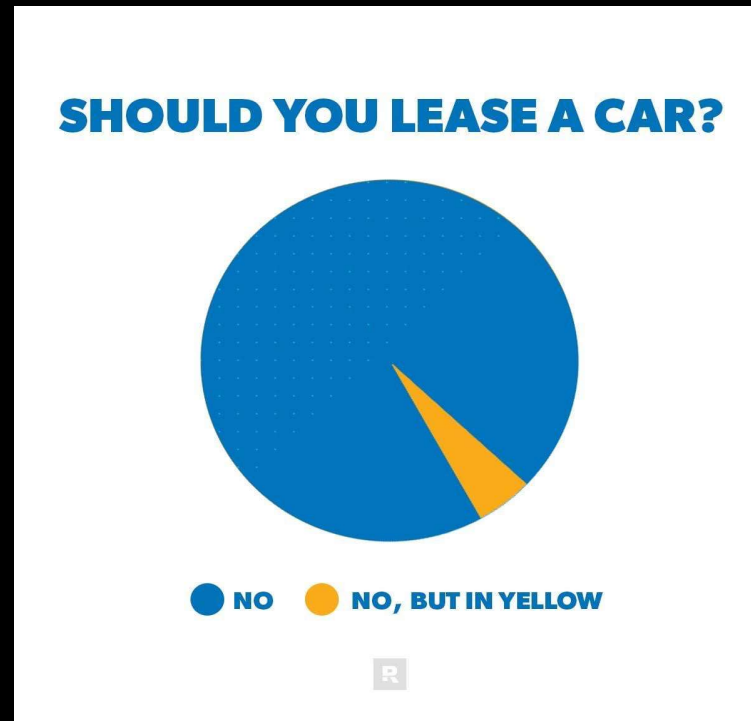
- My income changes month to month, so how do I make a budget to handle that?
  - Variable income is very common due to overtime worked, commission earnings, seasonal work, bonuses, etc.
  - Remember, your budget is just your spending plan for the upcoming month. If your income varies, just plan for the variation.
  - Figure out (based on the past 12 mos) the income that you expect to be the minimum for the upcoming month. Do your budget using that amount of income, planning where every dollar go.
  - Then, make a separate prioritized “wish list” of what you would spend money on if your income is higher than in your plan.

## QUESTION #2

- You said to use a 15-year (or less) fixed rate mortgage and not a 30-year mortgage when buying a house, but the payment is higher with a 15-year.
    - \$120,000 home w/ 20% down (\$24,000) = \$96,000 mortgage
    - 15-year fixed @ 2.53% = \$641.47/mo, Total = \$115,465.37
    - 30-year fixed @ 3.08% = \$408.89/mo, Total = \$147,201.71
    - Calculation does not include property taxes (+\$200/mo.)
    - Yes, your monthly payment is lower with a 30-year mortgage, but you pay \$31,736.34 MORE interest!!! And you're in DEBT for 15 more yrs!!!
    - \$400/month invested @10% return over 15 years = \$165,000 nest egg
- Remember, your monthly payment (including property taxes must be 25% or less of your monthly take-home pay...based on the 15-year mortgage. (~\$3,365/mo, or \$47,000/yr gross)

## QUESTION #3

- Is leasing a car a good idea to keep my payments low?



- No! Leasing is the most expensive way to operate a vehicle.

## QUESTION #3

- Is leasing a car a good idea to keep my payments low?
- If you have a NET WORTH of \$1 Million (or more), you can buy new cars or lease new cars (if you want to help maximize dealer profit).
- If your NET WORTH is less than \$1 Million you should buy used cars you can **afford** – which means you have the cash to buy them.
- Remember, the total value of the cars you own should be less than 50% of your annual income. (\$50K/yr, 2 cars? -- \$12,500 each.)
- Stop thinking of affordability in terms of monthly payments. Instead, consider the total cost when making financial decisions.
- You should stop using debt to finance things you can't afford.

## QUESTION #3

- **Is leasing a car a good idea to keep my payments low?**
- A lease (while technically not a loan) is debt. You agree to pay monthly over the term of lease and are charged interest (dealers will call it “money factor”), typically 6-10% (depends on FICO score)
- You will also pay a “rental” or “finance” charge (added on to the depreciation of the vehicle & split over the monthly payments).
- When you lease vehicles – you pay for the following:
  - Initial dealer’s profit (lease payments are calculated from sticker price)
  - The part of the car that you use: depreciation + rental charge (profit).
  - The “money factor” (a.k.a. interest or profit for the dealer)
- Typical 3-year lease  $\$229/\text{mo} \times 36 \text{ mos.} = \$8,244 + \$2,599$  due at sign
- **Can you buy a reliable car that will last longer than 3 yrs for \$10,843?**

# MARKETING

- What is the most heavily marketed thing in the USA?
  - DEBT !!!
- Why does the average American believe debt is okay?
  1. They don't know (or don't care) what the bible says.
  2. They are told they don't have to wait to get things.
  3. They are told debt is an important part of financial success.
  4. They are told their FICO score indicates financial well-being.
  5. They are told they need things to be happier.
- Who tells Americans these things?
  - Marketing Departments of major corporations – in commercials you listen to every day!



# MARKETING

- Marketing slogans and advertisements today tend to be very deceptive, diverting your thinking from the truth.
- They are not designed to tell you about the product they are selling. Their target is to make you believe you have a problem that they can solve.
- When it comes to marketing debt, the fact that debt is bad for your personal finances is ignored.
- Always remember...the reason any company is in business is to make money. Banks, credit card companies, auto credit companies and credit bureaus do that by enticing you to borrow money you don't have and paying them back with interest & fees (aka profit).

# MARKETING

Who knows (or at least has heard) these slogans/tag lines?

- “Everywhere you want to be” VISA
- “What’s in your wallet?” Capitol One
- “Don’t live life without it” American Express
- “Membership changes everything” American Express Platinum
- “Your card is the key” GM Rewards Card
- “Don’t spend more, spend smarter” GM Gold Card
- “Let it speak for you” HSBC Gold Card
- “Start living you dreams” MBNA
- “We treat you like you’d treat you” Discover

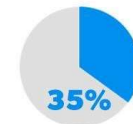
# MARKETING

- “There are things money can’t buy. For everything else there’s...”
  - “More living. Less limits.”
  - “Never miss another mile”
  - “Today’s way to pay”
  - “It takes the waiting out of wanting”
  - “Make life simple”
  - “It’s your window to the things you want”
  - “Credit power booster”
  - “Travel in good company”
  - “Great coffee now has its own currency”
- Mastercard  
World Mastercard  
Citibank Advantage  
Bank Ameri-card  
Access Card  
SBI Credit Card  
SONY Card  
BOB Card  
Diners Club  
Starbucks Card

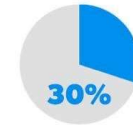
# FICO (CREDIT) SCORE

- Credit Score (aka FICO score) is calculated by 3 companies:
  - Equifax / TransUnion / Experian
  - They track your interaction with debt, use predictive analytics to determine your “credit-worthiness” and report that information to lenders that request it.
  - These companies make money every time a lender checks your credit.
  - They want you to use credit/debt as much as possible!!!

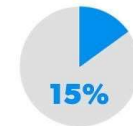
Your **FICO SCORE** is:



**DEBT PAYMENT HISTORY**



**DEBT OWED**



**HOW LONG YOU'VE BEEN IN DEBT**



**NEW DEBT**



**TYPES OF DEBT**



# FICO (CREDIT) SCORE

- The 5 factors to calculate your score:
  - 35% - Debt History (Do you pay your debt payments on time or not?)
    - The longer you have made payments the better your score.
    - The more payments you missed, the lower your score
  - 30% - Debt Owed (How much debt do you have?)
    - Compared to your total credit, too high AND too low debt drop score.
  - 15% - How Long You've Been In Debt
    - The longer you've been in debt the higher your score.
  - 10% - New Debt (How much of your debt is recent?)
    - Your score is better if you have some new debt.
  - 10% - Types of Debt (Car Loans, Credit Cards, Student Loans, etc)
    - Car loans & credit cards will help raise your score.
- 100% of your Credit Score is about how you interact with debt!!!!



# MARKETING

- Let's watch a few TV commercials about improving your FICO score, and see if you can pick up on the deception.

# EXPERIAN BOOST



# CREDIT KARMA

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# CREDIT SESAME

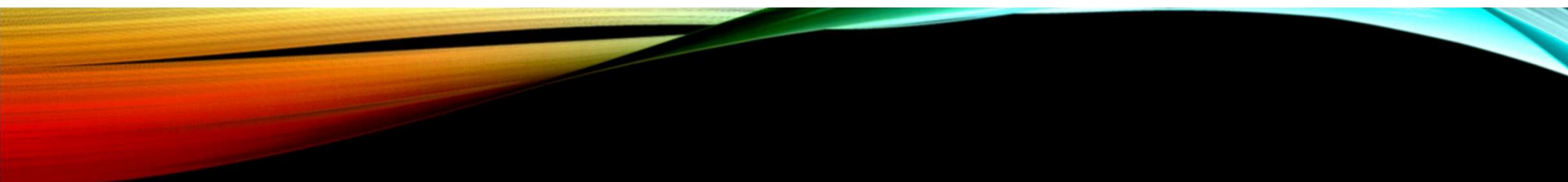


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# MARKETING

- Your financial problem is NOT that you don't have the right CC!
- Your financial problem is NOT that your FICO score is too low.
- Your FICO score does NOT indicate financial health.
- Your FICO score does NOT indicate financial success.
- A higher FICO score does NOT get you closer to your dreams.
- A higher FICO score does NOT mean you can afford more.
- A higher FICO score does NOT save you money.
- A credit bureau is the WRONG place to get financial advice.
- Your FICO score is your "I love debt" score.
- Please, give no thought to your FICO score. Stop using debt!

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- If you have questions in the future:
    - Please ask me personally. It is my desire to help.
  - One more time – my wife and I will be here at 5 PM tonight (1 hour before PM service)