Ready, Set, GO FOR IT!

Preparing for Your Financial Future

Financial Literacy Workbook

Grades 9–12

BANC OF CALIFORNIA | TOGETHER WE WIN®

FINANCIAL **PLANNING**

Financial planning is about defining and following a set of steps in order to reach a goal.

Create and consider these in your financial plan:

- **Income and Expenses**
- **A Plan for Spending, Saving and Investing**
- **Weighting Wants and Needs**
- **Limiting Expenses When Necessary**

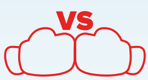
	Short-Term What actions can I take today to reach my goal?	**Intermediate** What actions can I take over the next few months to reach my goal?	**Long-Term** What actions can I take over the next few years to reach my goal?
First Goal			
Second Goal			
Third Goal			

CAN YOU
PAY YOUR BILLS?

Spending and Budgeting

Why do we need to keep track of money? Keeping track of money we spend **(expenses)** and money we earn **(income)** is about making choices. By analyzing our choices, we can make informed decisions about how to wisely spend and save for things we need and want. We do this through financial recordkeeping, creating a budget and monitoring cash flow. Cash flow is a term that refers to the movement of money flowing in **(income)** and money flowing out **(expenses)**.

Income



Expenses

Money that comes to you from:

- Various jobs or work
- Full-or part-time employment
- Allowances
- Interest and dividends

Items or services you spend money on might include:

- Bills (phone, rent, cable)
- Transportation (car payment, gas)
- Entertainment
- Food (groceries, dining out)

One-Two-Three **BUDGET**

Follow these three steps to building a budget...

1 Keep track of your **SPENDING**

2 Identify your **INCOME** and **EXPENSES**

3 Analyze **CASH FLOW** and look for ways to increase your income and decrease expenses

Tip: Separating needs and wants is one powerful way to be self-disciplined, avoid overspending on unnecessary expenses and stick to a written plan to help reduce spending.

BOOST YOUR **SAVINGS**

Whoa!

Savings is the amount of money set aside after expenses are subtracted from income.

When you receive money from either a paycheck or monetary gift, you should set aside a portion of the amount in a savings account in case of financial emergencies or for unexpected events. It is advised to save at least 10–15% of your paycheck to reap the long-term benefits.

Compound Interest

By compounding, your money can grow when you keep it in a financial institution that pays interest. Interest is expressed as a percentage and is calculated based on time and the amount of money in your account.

Scenario: Compounding Interest Over Time

INTEREST CAN BE COMPOUNDED **DAILY, MONTHLY OR ANNUALLY.**

What would happen if you saved $1,000 under your mattress for a year? Assuming that it hasn't been lost or stolen, it will still be $1,000 at the end of the year. Your mattress is not paying you interest to keep your money.

Banks and financial institutions do pay interest on your deposited money, helping a $1,000 deposit grow over time. Compounding means calculating interest on both principal and previously earned interest.

COMPOUNDING **INTEREST**

Compounding means calculating interest on both principal and previously earned interest.

Get serious!

	5 years	10 years	
Mattress Compounding at 0% Interest!	$1,000.00 (unless stolen or lost)	$1,000.00 (unless stolen or lost)	**NOT VERY GOOD**
Annual Compounding at 1%	$1,051.01	$1,104.62	**OKAY**
Monthly Compounding at 1%	$1,051.25	$1,105.12	**BETTER**
Daily Compounding at 1%	$1,051.27	$1,105.17	**BEST!**

WHAT IS **CREDIT?**

Credit is the ability to borrow money. There are different types of loans, depending on an individual's credit needs.

These include **credit cards**, **consumer installment loans**, **school loans** and **home loans or mortgages**.

Saving money and waiting to make a purchase is an alternative to credit. In some cases, credit offers the chance to invest in something that has the potential to provide a greater return than the cost of credit, such as a student loan or purchase of a home, which may help to increase long-term earning potential. Credit can also help people get through emergencies and unexpected job loss. Credit is inherently neither good nor bad, but it can be either, depending on how it is used.

In order to borrow money, you have to show that you are able to responsibly pay it back. Lenders take a risk when loaning you money, and not paying loans on time and in full can influence whether or not you are able to borrow money again in the future.

Lenders will review the "Four Cs" to decide whether you are a good credit risk and will be able to successfully pay back the loan.

THE FOUR **Cs OF CREDIT**

1 - CAPACITY

Capacity refers to your present and future ability to meet your payments. A lender wants to see that you have a job and you have held the same job or the same type of job for at least a year.

Lenders may ask:

- Do you have a job?
- How much money do you make each month?
- What are your monthly expenses?

2 - CAPITAL

Capital refers to the value of your assets and your net worth. Lenders want to determine the value of your assets (things you own that have financial value). Lenders will also compare the value of your assets and the amount of debt you have. This is called net worth. A positive net worth demonstrates your ability to manage your money.

Lenders may ask:

- How much money do you have in your checking and savings accounts?
- Do you have investments (for example, stock or other assets like a car)?

3 - CHARACTER

Character refers to how you have paid your bills or debts in the past.

Lenders may ask:

- Have you had credit in the past?
- How many credit accounts do you have?
- Have you ever filed for bankruptcy or had property repossessed?

4 - COLLATERAL

Collateral refers to property or assets you can offer to secure the loan. Collateral is security you provide the lender. Giving the lender collateral means that you pledge an asset that you own (for example, a car) to the lender with the agreement that it will be the repayment source in case you cannot repay the loan.

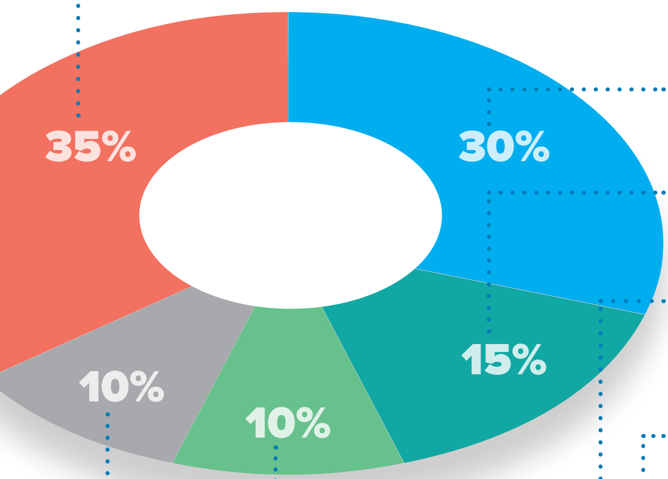
Lenders may ask:

- Do you have assets to secure the loan beyond your capacity to pay it off?

CREDIT **SCORE**

A credit score is used to predict how likely an individual is to repay a new loan based on information in his or her credit report.

Your credit score is a number that is developed by a computer model based on the information in your credit report. It is intended to predict, for example, how likely you are to repay your debts. Keep in mind that credit scores may vary depending on which scoring services prepared them and which of the many different credit scoring models is being used. As an example, the factors that determine your credit score in one commonly used model include:



PAYMENT HISTORY
Have you paid your bills on time?

OUTSTANDING DEBT
Do you currently owe money on any of your accounts?

CREDIT HISTORY
How long have you been using credit accounts?

TYPES OF CREDIT IN USE
What type of credit do you have? Mortgage loans, credit cards, installment loans?

PURSUIT OF NEW CREDIT OR CREDIT INQUIRIES
What credit accounts have you opened lately?

A credit report is used to calculate a credit score. A great majority of lenders use the **FICO credit score**, which is a number that ranges from **300** to **850**. The higher your score, the greater your creditworthiness and the less risky you are to a lender.

A credit score is a quick and easy way for a lender to assess your creditworthiness. A credit score is used to predict how likely an individual is to repay a new loan based on information in his or her credit report.

Credit is granted based partially on your credit score. Lenders also check your credit score when you apply for a credit card or before you can rent a new apartment. Each time you demonstrate a financial behavior, such as paying bills (whether late or on time) or opening up a new line of credit, your credit score is continually updated to reflect your ability to successfully manage finances.

CREDIT CARDS

Which of these statements is false about credit cards?

1. They are used to purchase goods and services.

2. They take money from your checking account to pay for purchases.

3. They are subject to interest charges if not paid in full each month.

Statement **2** is false because credit is the ability to borrow money—not using your checking account to pay for purchases. When you pay for a purchase with a credit card, it means you are taking out a loan to make the purchase.

If one day you do determine that a credit card is the right choice for yourself, there are some items to be aware of when selecting a card:

- **Annual Percentage Rate (APR):** the annual rate that is charged for borrowing—the rate is expressed as a single percentage number that represents the actual yearly cost of funds over a period of time
- **Penalty:** high interest rates that can be triggered by the slightest infraction
- **Fees:** late payment fee, application fee, annual fee, additional card fee, etc.
- **Grace Period:** period of time a bank gives you to pay your new charges without having to pay interest
- **Credit Limit:** maximum amount a bank will allow someone to borrow

I want an orange one!

CREDIT CARD
Responsibility Tips

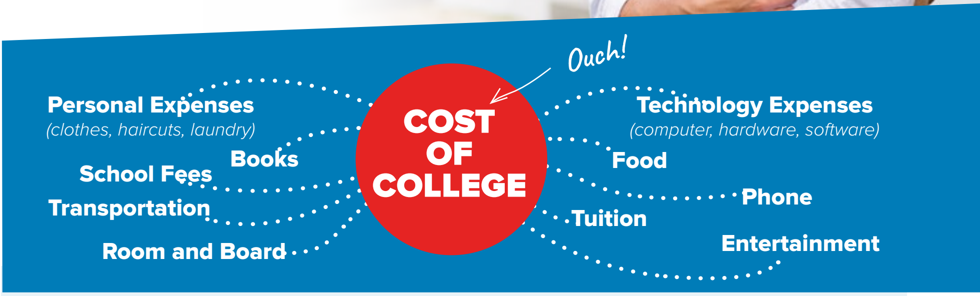
What's that?

- Keep track of what you are charging. It can be easy to spend more than you realize.
- Read your monthly statements carefully and make sure all the charges are accurate.
- Pay off your full balance every month.
- Always pay your balance on time to avoid late fees and build a positive credit history.
- Anytime you are considering a new financial product like a credit card, researching your options thoroughly is the best way to know what you are signing up for before making any decisions.

FINANCING **COLLEGE**

What Is Your Skill and Will?

“Champions aren’t made in gyms. Champions are made from something they have deep inside them, a desire, a dream, a vision. They have to have the skill and the will. But the will must be stronger than the skill.” ***Muhammad Ali***



Pursuing a college degree can be both time consuming and expensive, but college graduates usually see a return on their investment (ROI) and benefit from long-term payoffs (for example: more career options, better promotion opportunities, higher earnings and lower unemployment). Continuing your education beyond high school is a large investment that takes a lot of planning and research. Whether you are interested in going to a college or university; community college; trade, career or technical school; or entering the workforce, it is never too early to think about how to pay for expenses.

Different Financial Aid Choices

- **SCHOLARSHIPS:** money for college that you will not be expected to repay—scholarships sponsored by colleges are often designated for students who satisfy certain merit-based criteria, such as excellent academic or athletic performance
- **GRANTS:** money for college that you are not expected to repay—often awarded based on need
- **LOANS:** money borrowed that must be repaid with interest
- **WORK-STUDY PROGRAMS:** money earned for college by working to help pay for educational expenses
- **FREE APPLICATION FOR FEDERAL STUDENT AID (FAFSA):** application for federal student financial aid such as Pell grants, student loans and college work-study programs—filling out the application is the first step to apply for federal student aid—many states and schools also use FAFSA information to award their financial aid

COLLEGE
PLANNING PREP

COLLEGE PLANNING

Size

How big of a school do I want to go to?

Location

How close to home do I want to stay? Not too close!

Career

What types of jobs would I like to have?

What degrees would I need to get the job I want?

Study

What do I want to major in?

What extracurriculars am I interested in?

Finances

How will I pay for school?

AUTO **PURCHASE**

There are several factors to consider when thinking about purchasing a car.

WHAT CAN I AFFORD RIGHT NOW?

After you've determined that buying a car is the right choice for yourself you'll need to figure out how you will pay for the car. You can pay with cash in full, lease, or take out a loan. When you take out a loan, you will have fixed monthly payments over a set period of time depending on the terms you agreed upon. Make sure to do your research first so that you are getting the best deal and interest rate as the expense of cars can add up fast.

HOW MUCH EXTRA WILL A CAR COST WITH GAS, REPAIRS AND INSURANCE?

Not only do you have the cost of the car (e.g., $225 monthly payment x 60 months = $13,500), but you'll probably need money for a down payment, tax, and registration fees. Now you are looking at a total cost of approximately $16,500. You can receive a loan from a bank, credit union or even through the car dealership.

SHOULD I LEASE OR OWN?

Now that you've determined that you need a car and how you are going to pay for it, should you lease or buy? Both options have pros and cons. Buying a car means it belongs to you. You can drive it as much as you want and put as much wear and tear on it as you need to. Insurance tends to cost less when buying, and it's also more cost effective overall if you plan to keep it for a long time. However, your monthly costs may be higher due to interest.

Leasing a car, on the other hand, means that you need to give it back after the agreed-upon term. Any damage or extra mileage will end up costing you more money, and insurance is typically higher due to higher levels of coverage. However, your monthly payments are usually less. Once you've answered all these questions and are ready to look at cars, shop around and compare prices, makes, expenses, etc., to make sure you are getting the best bang for your buck and that all your needs are met.

NOTES

Come on write a poem!

KIDS **BANC ACCOUNT**

COMMITTED TO HELPING FUTURE GENERATIONS **GET STARTED ON THE RIGHT FOOT**

A New Way to Save

With no minimum opening deposit required, our Kids Banc Account is specifically designed for young savers and future entrepreneurs. Your child will receive monthly statements and learn about finances while watching their balances grow.

Unlimited In-Branch Transactions!

Make deposits and withdrawals anytime, with no transaction limits or monthly service fees, at any of our Southern California branch locations.

For more information about our Kids Banc Savings Account and current rates, please see a branch representative or call 877-770-BANC (2262).

BANC OF CALIFORNIA | TOGETHER WE WIN®

bancofcal.com/kidsbancaccount

A 1099-INT will be generated and reported to the IRS at year-end. Eligible for minors 17 years old or younger. Minor must have a valid U.S. Taxpayer Identification Number. Other rules and restrictions may apply. See branch for details. No minimum opening deposit is required.

EQUAL HOUSING LENDER

CRA28B0721