

LESSON TWO

BUDGETING FOR VARIABLE EXPENSES

Some expenses such as car insurance and car registration happen once a year, though some families pay car insurance monthly or every six months. A fixed amount should be put in the budget for these expenses so money is available when it is needed.

On the Variable Expense Planning worksheet (page 11) write the yearly amount of a particular expense in the Estimated Cost column, divide by 12 and put the result in the Monthly Savings column and on the Family Budget worksheet. Monthly savings amounts for expenses such as clothing and gift giving can be estimated and when an initial budget is determined these can be changed as required to make expenses fit within income. As a starting point for put \$190.00 per month for utilities (gas, water, electricity and phone) on the Family Budget worksheet.

If you are buying a home never have your property tax be part of your payment, use the Variable Expense Planning worksheet to figure out how much to save each month. This way you will get interest income from your money. If your loan is greater than 80% of the house value you will have to Private Mortgage Insurance to pay the mortgage in case you default. Keep track of the equity you have in your home, once the principle on the loan reaches 80% of the home value ask your lender to remove PMI from your loan. PMI will automatically be removed once the loan reaches 78% of the value of the home.

Cash Management

There are two ways to of managing cash and spending. The first is to use bank or credit union accounts. Bank accounts have the advantage of being secure and drawing interest. Bank accounts require the discipline of knowing how much you have to spend and spending with your limit and the inconvenience of having to go the bank to make deposits and withdrawals.

The second cash management method is to use cash envelopes. The envelope system works by putting available cash for an expense in an envelope, taking out cash as necessary and returning the change to the envelope. The advantage of the envelope system is that it is impossible to overspend and mathematical errors are avoided. The disadvantages are you need to return change to the envelope, the cash doesn't draw interest and having cash at home is not secure.

Whichever cash management system you use a family needs to have one person, the "family bookkeeper", keep track of family finances. The bookkeeper should have planning and math skills. The family must respect their bookkeeper when it comes to receiving and spending cash and returning change.

Credit and Debt

When you become a homeowner many types of credit will be offered to you, here are some types of credit and how to use (or not use) them.

Home Equity Loans

Home equity Loans are advertised as means to finance second cars, boats, vacations, college tuition or debt consolidation. These loans should be avoided since they have high interest rates and put a lien on your home. Save for any luxury items, if you can't save for it you can't afford it. Use low interest student loans for education, make a plan for paying off debts and loans which does not require a lien on your home.

Credit Cards

People using a Credit Card spend up to 40% more for an item than if they used cash or check. Credit Cards have high interest rates, by making the minimum payment you will pay 4 times the amount of the original purchase in interest. Using Credit cards is not recommended.

Dealing With Debt

If you make payments for credit cards, auto loans or other debts list them on the list of Debts form (page 12). If your monthly expenses exceed your income due to debt consider calling a credit counseling service such as Consumer Credit Counselors (CCC). CCC works on behalf of a family with creditors to develop a debt management plan. CCC can be found in the phone book.

If you are paying off debts and have some extra money in your budget use some of it to pay off your debts. Two methods can be used depending on your priorities. Paying off the debt with the smallest balance will reduce monthly expenses most quickly. Paying off the debt with the highest interest will minimize the amount of interest.

Lendmark

Financial Services®

680 W Prince Rd Ste 100
Tucson, AZ 85705-3499

Your personal loan solution is Lendmark

Gerald
we've reserved you
a personal loan of:

\$4,050*

More may be available
to you, apply today!

Offer Code: 072017YZQC4050U
This Offer Expires: July 20, 2017

ELECTRONIC SERVICE REQUESTED

Gerald Lemay



Dear Gerald,

Life is full of moments that delight, inspire, even challenge us. Memories are tied into vacations, first cars, holidays, family and just getting through every day. That's why Lendmark Financial Services® offers customized lending solutions tailored to help you with all the things that make your life unique.

We've already reserved you a personal loan of \$4,050.

Act quickly, this offer expires on July 20, 2017.



Fixed rates, terms,
and payments



Monthly payments
that fit your budget



Simple process,
fast response time



Local branches for
personal service

Why choose Lendmark Financial?



Convenient, yet
personal loans



Trained professionals providing
personalized attention



Loans for whatever
you may need



Customized lending
solutions tailored to you

Start the secure application process today.

We make getting the loan you need easy. Just visit us online at LendmarkFinancial.com/Apply and fill out the secure application. If you prefer, you can also call (520) 887-0050 or bring this letter into your local branch today. Once your application is approved, you could receive your check today. Don't wait too long, this offer expires July 20, 2017.

Get your personalized loan solution today!

Offer Code: 072017YZQC4050U

The Cost of Credit

The credit card statement below shows a balance of \$1,937.35 and a minimum payment of \$25.00 per month. Making the minimum payment increases the cost of the goods and services to \$3,455.00, a 78% increase.

Summary of Account Activity		Payment Information		
Previous Balance	\$3,786.52	New Balance	\$1,937.35	
- Payments	\$3,786.52	Total Minimum Payment Due	\$25.00	
+ Purchases/Debits	\$1,937.35	Payment Due Date		
New Balance	\$1,937.35	Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a late fee up to \$35.00.		
Credit Limit	\$10,000.00	Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:		
Available Credit	\$7,906.00	If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of
Cash Advance/Quick Cash Limit	\$2,000.00	Only the minimum payment	10 years	\$3,455.00
Available Cash	\$2,000.00	\$67.00	3 years	\$2,415.00 (Savings = \$1,040.00)
Statement Closing Date	11/08/2013	If you would like information about credit counseling services, call 1-877-302-8775.		
Days in Billing Cycle	29			

As of November 2013 Americans owed \$846.9 billion in credit card debt. Mortgage and Student Loan debt is higher.

The 3 unbreakable rules for using a credit card:

1. Use a credit card that does not have an annual fee.
2. Don't buy anything with a credit card if you don't already have the money in the bank to pay the credit card bill.
3. Pay your entire balance each month.

IF YOU CAN'T FOLLOW THESE RULES DON'T USE CREDIT CARDS!!!

Advantages of using credit

- Your money earns interest until you pay the credit card bill
- More secure than carrying cash

Dis-advantages of using credit

- You may spend more for something than if you used cash, or buy something you don't have the money for.

LESSON TWO REVIEW

Answer the following questions from Lesson Two.

List four variable expenses you need to budget for:

1 _____

2 _____

3 _____

4 _____

What are the two types of cash management systems and one advantage of each?

1 _____

advantage:

2 _____

advantage:

List two reasons why using a credit card is not a good idea.

1 _____

2 _____

LOOKING AHEAD: Lesson 3 deals with Budget Wreckers and Dealing with a Financial Crisis.