GUIDE TO PERSONAL FINANCE

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Tracking Your Balance

You need to stay current on what's in your checking account.

It's easier than ever to keep track of the activity in your checking account. The details of each credit and debit transaction, the type of transaction it was, and the current balance are available online all the time. Regularly scheduled debits that are due but have not yet been paid may be listed as pending.

Once a month, though not always at the end of the month, activity in your account is compiled in a statement that may be mailed to you, can be downloaded as a PDF file, or both. Statements going back several months or longer are also available, but you may have to request that they be retrieved from the archives.

While there is sometimes a fee for checking your account balance at an ATM, it's easy—and free—to access your account balance online or from your mobile phone. That means you should never tap your overdraft line of credit accidently or have a withdrawal refused for insufficient funds. But you do have to make the effort to check on a regular basis.

CHECKBOOK RECORDS

If you still use paper checks, your checkbook will have a recordkeeping system, whether as a separate ledger, stubs attached to the checks, or a carbon-copy of the checks you write. None of these is especially useful for keeping a running tally of your account if you also make electronic payments. But they can be helpful in confirming that you have, in fact, written checks to specific payees and that the amount of each check is accurately reflected in your statement or online account details.

GETTING IT WRONG

You're not likely to find many mistakes in bank statements. But you should regularly compare your own records—such as ATM and debit card receipts and regular direct deposits of your paycheck or other income—to what your account details or monthly statement show, since mistakes can happen. Generally you have 60 days to report problems with electronic fund transfers (EFTs), but only 14 days for other types of errors. The sooner you notify the bank, the better. And always follow up a verbal report with a written one.

What's more likely to happen is that your sense of what's in your account is different from what the bank detail shows. If you've underestimated your account balance, which probably doesn't happen very often, it may be that you've forgotten about deposits you've made, especially as deposit slips have become extinct.

If you chronically overestimate your balance, however, chances are you need to pay more attention to what you're spending, especially if you pay for most purchases, even small ones, with plastic and don't keep the receipts.

PAYROLL CARDS

Some employers use payroll cards to pay salary or wages, either instead of, or in addition to, direct deposits to your bank account or paper paychecks. Some payroll cards provide monthly statements that:

- Allow you to track your spending
- Limit the number of fees
- Provide FDIC insurance and reimbursement of remaining balances if the card is lost or stolen, though you may have to pay for a replacement card

But all cards are not created equal. Some have fewer consumer protections and higher fees. And some seem downright predatory: They may include charges for inactivity fees, for all ATM withdrawals after the first or second one in a month, and for each purchase you make.

If your only option is a payroll card, and the fees are eating up too much of your pay, you should complain to the Consumer Financial Protection Bureau at www.consumerfinance.gov and your elected representatives. The purpose of payroll cards is not to create a financial drain on employees.

CASH ALMOST INSTANTLY

You can use authorized non-bank institutions, such as MoneyGram and Western Union, to transfer money in as little as ten minutes or up to three days for a fee that's determined by the speed of delivery, amount of the transfer, and the destination, which may be domestic or international.

SPECIAL PAYMENTS

Sometimes a payee will require a check that guarantees payment will be made. That generally means having a personal check certified or using a bank check or money order.

When you write a certified check, your bank puts a hold on the amount of the check, and stamps ***certified*** on the face. There's no limit on the amount of the check, provided you have enough money in your account to cover it. When it's cashed, the amount is debited and shows up in your bank statement.

To arrange for a bank check, you tell the bank teller how much the check should be for and who the payee is. You then either write a check to the bank or debit the amount from your account. The check, which comes with a carbon copy for your records, is machine printed and signed by a bank officer.

The same is true of a money order, which you can purchase from a bank or a post office. The fee is often higher at a bank, but the limits on the amount of the money order are also higher.

With all these guaranteed payments, once the document has been sent or given to the payee, you can't stop payment. And with bank checks and money orders, there is no confirmation in your bank statement or elsewhere that payment has been made.

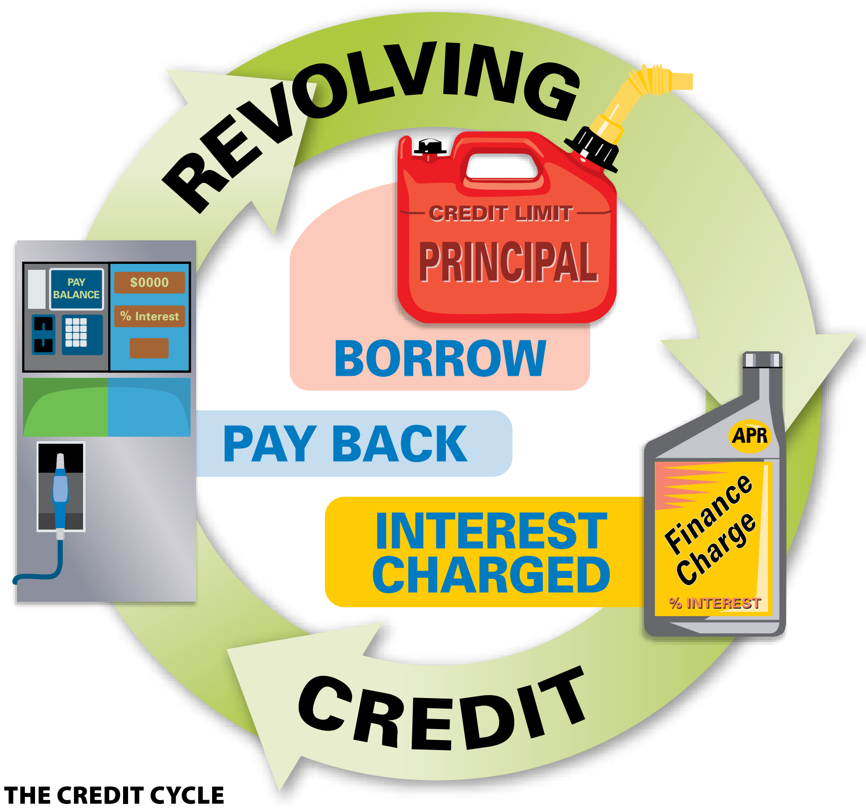
Credit Cards

Access to revolving credit doesn't have to make your head spin.

When you apply for a credit card, you sign an agreement with the card issuer—usually but not always a bank—to repay amounts you borrow against your **credit limit**, a dollar amount that the issuer sets. Each time you make a purchase you reduce the amount of credit available. But amounts you repay are applied to the credit limit and available to borrow again.

For example, if you have a credit limit of $3,500 and charge purchases of $1,500, your available credit is $2,000. If you repay the full amount, your available credit returns to $3,500. If you repay $500 instead, your available credit is $2,500.

This revolving cycle of borrowing, repaying, and borrowing again can continue indefinitely as long as you pay at least the minimum you owe on time.



THE CREDIT CYCLE

Every credit card has 12 billing periods that end on or about the same date every month—though that date varies from card to card. When the period ends, the card issuer prepares a statement that details all of your purchases and credits since the previous statement, calculates your outstanding balance, and sets the minimum payment and the payment date. The payment date must be the same date every month and at least 21 days after the bill is posted online or mailed to you.

Your statement will tell you when the billing period ends, or closes. That's handy information, because you can time a major purchase for just after the closing date and take advantage of a credit float. That means you won't have to pay for purchase until the following statement's due date—generally about seven weeks in the future.

THE COST OF CREDIT

It's true that you may pay more for buying with a credit card than you would if you paid cash. That's the cost of convenience. But the additional cost of using revolving credit—if there is one—depends on how you pay your bill.

If you've paid your previous bill in full and on time, and you do so again,

the credit costs you nothing—provided your card has a grace period. A **grace period** allows card users who have paid their previous balance in full to avoid interest on purchases made during the current billing cycle. Cards aren't required to provide a grace period, but if you regularly pay on time it's worth looking for one that does.

However, if you pay only part of your outstanding balance, you owe interest on the unpaid amount. You also owe interest on any purchases during the month beginning on the day of the purchase. The most common method for calculating the amount of interest you owe is based on the daily outstanding balance in your account, with this amount compounding daily.

Your billing statement includes a chart with a warning about how much interest you'll owe if you pay over three years or pay only the required minimum. The latter is not a pretty picture—and the calculation assumes you don't use the card for additional purchases. If you go on spending, the problem gets worse.

If you want to see what it would cost you to repay an outstanding balance by making minimum payments, check out the credit card calculator at www.federalreserve.gov. For example, assuming you owed $5,400 with an APR of 18%, it would take you 36 years to repay, and you'd owe $14,063 in interest.

A TIMELY ISSUE

If your payment arrives by 5 p.m. of the due date, the card issuer must consider it timely, which means on time. If it's due on a weekend or holiday, you have until 5 p.m. on the next business day. But don't cut it too close.

Payment Information

Statement Balance $2,422.67
Minimum Payment Due $25.00

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:

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...
Only the minimum payment	12 years	$4,444.00
$83.00	3 years	$2,988.00 (Savings = $1,456.00)

CHOOSING A CARD

You may decide that using just one credit card will meet your needs, but there may be times that using two would be a more economical choice. To help you decide, ask yourself:

- Do you always pay your credit card bill in full and on time each month?
- Does it sometimes take you a number of months to pay off a major purchase, such as an appliance or furniture?
- Do you regularly pay just a portion of the outstanding balance each month?

If the answer to the first question is yes, you may need just one card with a grace period. If the answer to the last question is yes, then what you want is a card with the lowest possible APR for which you qualify.

But if it sometimes takes you a little longer to pay a large bill, consider using two cards: one with a grace period that you'll pay off in full for most charges, and another, with a low APR, that you use for large purchases. In fact, you might investigate applying for a card from the retailer where you make a major purchase if you can avoid interest entirely by making all scheduled payments on time. One caution: just never be late with these payments or the interest-free deal may evaporate and you'll be facing a hefty interest charge.

WORD TO THE WISE

Credit card issuers market their cards aggressively, often offering lower-than-average APRs, called teaser rates. They may also encourage you to transfer existing balances. You'll want to confirm what the actual rate will be when the low rate expires and the cost, if any, of balance transfers.

Buying a Home

To buy or not to buy? It may be more complicated than you think.

Is now the right time to buy a home instead of renting? Should you sell the home you're living in and buy another one? The answers to these questions are always a combination of financial and personal priorities, sometimes prompted by a new job or a growing family.

A BUYER'S CHECKLIST

If you're thinking seriously about buying, you'll want to:

- ✓ Evaluate how much you have for a down payment, either from savings or potential profit from the sale of your current home
- ✓ Estimate what you can afford to spend by reviewing your budget, consulting with your financial advisers, and comparing the results of several online home-buying calculators—though the calculators may ask for information you don't have, such as estimated real estate taxes and insurance costs
- ✓ Start looking at homes in your price range in areas you have identified as places you'd like to live

Unless you qualify for a Federal Housing Administration (FHA) mortgage, a Department of Veterans Affairs home loan guarantee, assistance through the Community Reinvestment Act (CRA), or another government program—including people buying in rural areas and people with disabilities—you should expect lenders to require a 20% cash down payment.

When estimating what you can afford, remember that you have to include real estate taxes, which can vary dramatically from place to place. If you have children, remember that higher real estate taxes may be correlated with a good public school system. So paying higher taxes may be cheaper in the long run than paying for private school. The same is true about proximity to public transportation if you commute. The catch is that good schools and good transportation don't necessarily go hand-in-hand.

In the final analysis, flexibility is key to finding a home that meets your financial and personal needs. So is waiting for the right opportunity.

THE BUYING PROCESS

Most homebuyers pay part of a home's purchase price, called the **down payment**, in cash, and use a **mortgage loan** from a bank, credit union, mortgage banker, or other lender to close, or finalize, the purchase.

At least six months before you expect to apply for a mortgage loan, you should check your **credit report** using www.annualcreditreport.com to be sure there are no potential credit problems that might make it harder for a lender to approve your application. If you find a major error that could hurt your creditworthiness, try to have it resolved by following the directions on the credit reporting agency website.

Then shop around for the lowest **annual percentage rate (APR)** being offered for loan term you want. If you already have an account with a potential lender, you'll want to start there, asking if you would be eligible for a preferred rate.

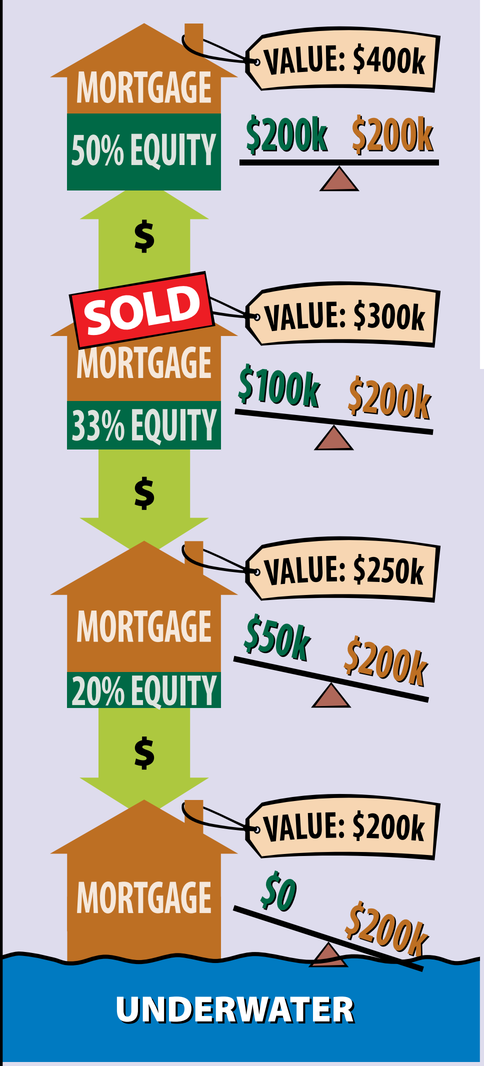
ASKING FIRST

The customary approach to applying for a mortgage is to wait until you find the home you want to buy and then look for a lender. But you may want to investigate **preapproval**. This means you apply for a mortgage loan before you have chosen a property. The lender will let you know whether or not you're approved and how much you'll be able to borrow.

Preapproval is often a good idea since you can shop with more confidence when you know how much you can afford to spend. Preapproval can also make you a more attractive buyer, as the seller can be confident that you can get a loan. But there are fees involved, as there are with any loan application, so you don't want to take this step until you're serious about buying.

Another approach is to seek **prequalification**. In this case, a mortgage lender confirms that you will probably be approved and for how much but does not make a commitment to lend.

EQUITY CHANGES



IT'S ALL ABOUT EQUITY

When you make a down payment on a home, that amount determines your equity, or the percentage of the property you actually own. The more you put down, the greater your equity. And, as you pay off the mortgage loan principal, your equity increases. When the loan is fully paid, your equity is 100%, and the home is yours, free and clear.

But there is another factor at work in building equity: the market value of real estate, which changes all the time. That means your equity can increase if the market value of your home increases. But, the reverse is also true. If the market value drops, your equity could shrink, a situation that a large number of homeowners faced during the fiscal crisis starting in 2008.

In a simplified example, assume that a home you bought for $300,000 with a $200,000 mortgage grew in value to $400,000. Your initial equity of 33% (your $100,000 divided by the $300,000 value) would increase to 50% (your $100,000 plus the $100,000 divided by $400,000). That is, you'd owe around $200,000 on a home worth $400,000.

But, if the home's market value decreased to $250,000, your equity would shrink to 20% if you still owed $200,000. And the value dropped below $200,000, as it could in a serious market downturn, your equity would drop to 0% and you would actually owe more than the home was worth. That's known as being underwater.

While real estate values don't change overnight, you don't pay off a loan's principal that quickly either. In fact, it takes more than 20 years of a 30-year loan to pay off even half the principal.

The prospect of price changes in the housing market shouldn't drive you away from buying. The changes often work in your favor. But the potential for a loss in value is worth considering.