Neighborhood
CREDIT UNION

Making Budgets Work

PARTICIPANT'S GUIDE

Neighborhood
CREDIT UNION

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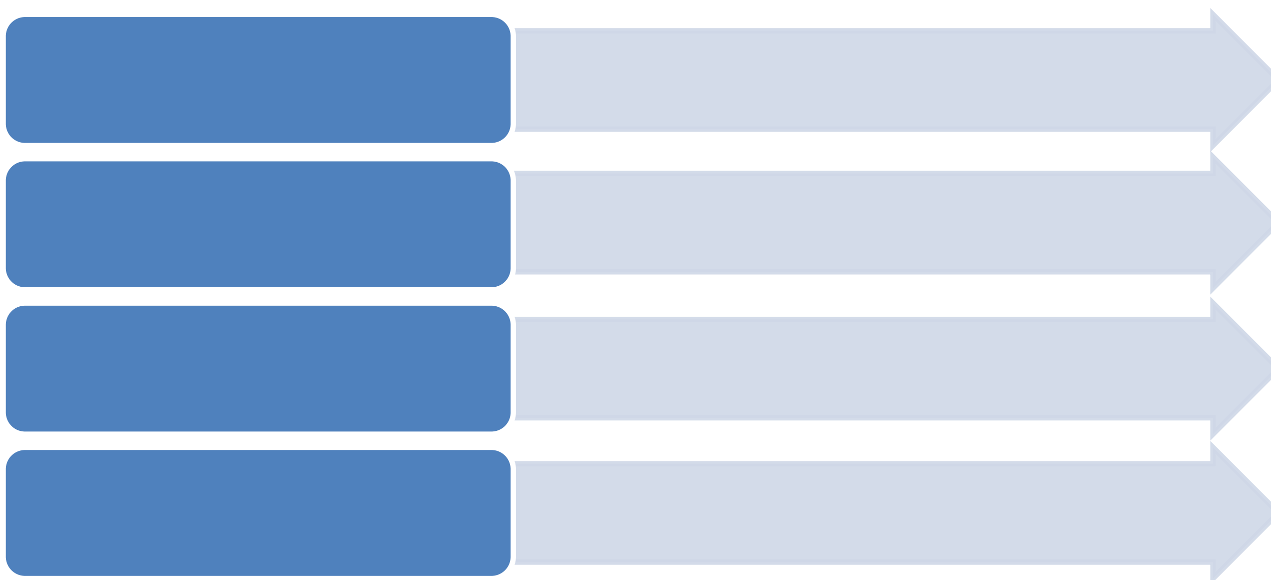
FINANCIAL SELF-REFLECTION

What’s preventing you from creating and maintaining a budget?

Think about the possible obstacles holding you back, and then consider ways that you can overcome them.

Obstacle/ Challenge Solution



SETTING YOUR GOALS

Goal	Amount	Time
Build emergency savings		

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ORGANIZING YOUR FINANCIAL DOCUMENTS

Before creating a budget, organize your financial documents.

You'll need:

1. All your sources of income.
2. A record of your average monthly expenses. If possible, keep track of your expenses for at least three months so that you know how much you spend on each item on average.
3. A list of your debts.

I. SOURCES OF INCOME

List all your sources of income. Enter the net amount for each source (the amount you actually take home after considering taxes and other deductions). If your income changes from month to month, try to find an average.

Income source	**Amount each month**
TOTAL MONTHLY INCOME	**$**

II. EXPENSE TRACKER

List all your monthly expenses. This will include expenses in the following categories, in addition to other unlisted expenses:

Home: mortgage, rent, insurance, utilities
Food: groceries, coffee, snacks, dining out
Family: child support, daycare, school supplies, laundry
Transportation: gas, car insurance, bus fare, maintenance
Health: medicine, insurance, office visits, personal hygiene
Leisure: subscriptions, tickets, rentals, entertainment

**Mortgage is the only debt you should list here. All other debts (like auto and student loans) should be recorded in the next section.*

EXPENSE	MONTH 1	MONTH 2	MONTH 3	AVERAGE
DEBTS (use the TOTAL from Part **III**; "monthly payment").				
TOTAL MONTHLY EXPENSES (Average): $				

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III. DEBTS

Listing your debts will help you create a plan to pay them off. **Do not** include mortgage debt (this should be listed in your monthly expenses under “housing”). **Do** include debts such as:

- Car payment
- Student loans
- Credit cards

List each debt separately. For instance, if you have multiple credit cards, list each on its own line. Add up the total monthly payments and the total balance. Apply the total monthly payment figure to your “Expense Tracker” under “Debts.”

Debt	APR %	Monthly payment	Balance
	TOTALS	**$**	**$**

YOUR DISCRETIONARY INCOME

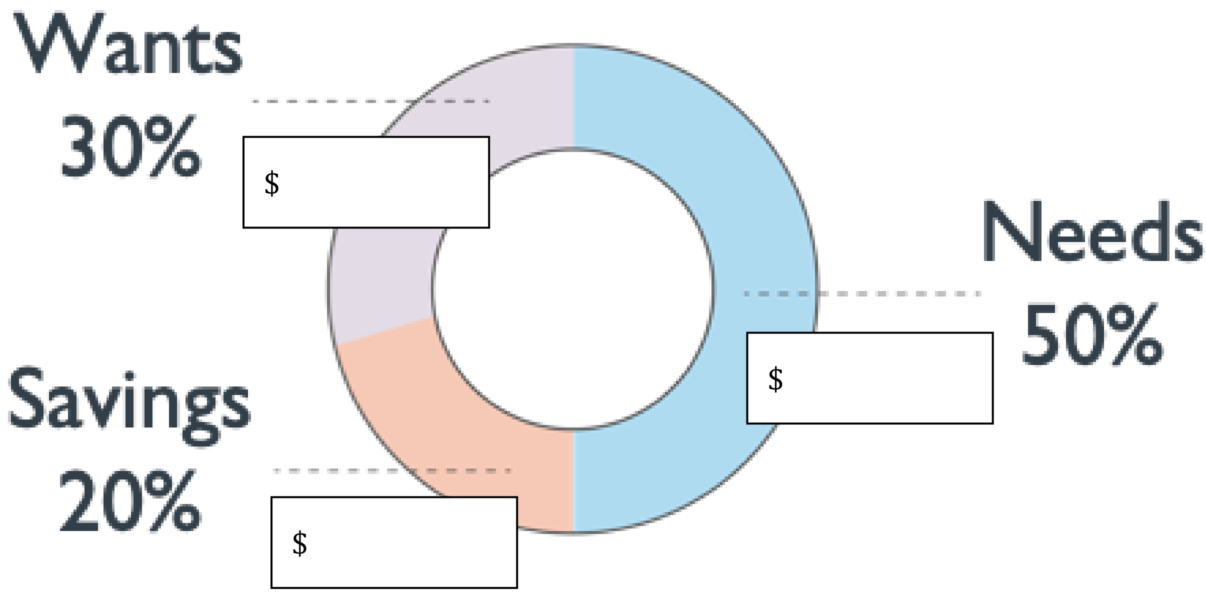
To calculate your discretionary income, subtract your average monthly expenses (including Debts) recorded in Section II Expense Tracker, from your total income recorded in Section I Sources of Income. This is the amount you are able to apply currently towards savings or paying down your debts.

TOTAL MONTHLY NET INCOME – TOTAL MONTHLY EXPENSES = Discretionary Income

$ ______________________ - $______________________ = $ ____________________

THE 50/30/20 BUDGETING RULE

Your Monthly Net Income $ ____________________



CALCULATING PERCENTAGE SPENT: NEEDS AND WANTS

What percentage of your income is paying for your "NEEDS"?

$______________ ÷ $______________ = ______ X 100 _____%

NEEDS Total — Monthly net income

What percentage of your income is paying for your "WANTS"?

$______________ ÷ $______________ = ______ X 100 _____%

WANTS Total — Monthly net income

CUTTING EXPENSES

Cutting your expenses is an important way to free up funds so that you can reach your savings goals. Take a moment to brainstorm areas where you may be able to trim some expenses.

Expense	How much or what can be cut?	How much will it free up?

YOUR SPENDING BIAS

What recurring expenses can you look at to see about freeing up additional funds? Record them here so that you know to explore them later. What larger purchases have you made recently that may have been a result of present bias? If you can undo any of these, record them here as well. For instance, can you trade in an expensive car for one that's more economical?

Recurring and Large Expenses
1.
2.
3.
4.
5.

INCREASE THE PAIN OF SPENDING

Use this section to record brainstorming session

FREEING UP FUNDS: MONEY-SAVING TIPS

Follow these tips to free up funds.

1. "Clip" coupons.
2. Check clearance aisles.
3. Check mark-down sites and stores.
4. Buy in bulk.
5. Get it when it's hot.

RULES FOR DEALS

1. Check expiration dates.
2. Look for defects and damage.
3. Shop around.
4. Will you use it all?
5. Do you need it?

Use this section to record tips and ideas shared by other participants.

STICKING TO YOUR BUDGET

Use these strategies to help you stick to your budget.

Strategy #1. Focus on rewards versus punishments

Strategy #2. Make it automatic

Strategy #3. Create buckets

Strategy #4. Get real-time spending feedback, and set reminders

GLOSSARY

APR (Annual percentage rate): the interest rate on a credit card plus any additional fees.

Avalanche Method: debt repayment strategy in which you focus on paying off the debts that have the highest interest rates first.

Compound interest: interest is applied to the principal (or balance) AND any accrued interest. This is different than simple interest, which is t applied only to the original principal (or loan amount). Formula: $\mathbf{A=P(1+r/n)^{nt}}$

A =	amount after a certain period of time factoring in compound interest
P =	principal amount (the initial amount you borrow or deposit)
r =	annual interest rate (as a decimal)
n =	number of times the interest is compounded per year
t =	number of years the amount is deposited or borrowed

Debt: the amount of money owed by a person or household for items purchased on credit.

Discretionary income: the amount left over after you deduct your expenses from your net income.

Goals

Short-term goals can be accomplished in a short period of time, usually a few months or around a year. These goals include paying off a credit card debt or saving for a vacation.

Long-term goals take longer to accomplish and are usually much bigger in scope. Some examples include building a college savings plan or, the biggest long-term goal, saving for retirement.

Mid-term goals fall somewhere in the middle. They're a bit more than what you'll spend on vacation, but not as much as you'll spend on four years of college tuition. This could include saving for a down payment on a home or buying a new car.

Gross income: income before taxes and other benefits are taken out.

Interest: the amount charged to borrow money.

Net income: income after taxes and other deductions are taken out.

Present bias: the human brain is wired to focus on the short-term, so people are more inclined to think about their current needs and wants rather than plan for the future.

Principal: the amount borrowed, not including interest and fees.

Snowball Method: debt repayment strategy in which you focus on paying off the debts that carry the lowest balance first.

Status-quo bias: people are much more likely to continue doing what they usually do rather than make any changes—even if the changes are obviously beneficial.