Tighten The Belt…
On Your Finances

How to Survive the Current Economic Crisis and Remain Financially Healthy

Presented by Madrinas’ Treasurer
Yesi Morillo-Gual | January 15, 2009
The Short Explanation | How We Got Here

• Mortgage-backed securities were targeted as a means to offer higher yields when the Funds Rate fell from 6% to 1% in early 2000.

• Mortgages once offered to well-qualified buyers were now being offered in pretty packages to non-qualifying buyers (aka sub-prime loans).

• Mortgages requiring initial small payments and adjustment a few years later, became common.

• Banks gave out as many loans as possible, sold them to Wall Street, who repackaged them and sold them to investors, “securing” them with other instruments.

Pure greed brought America to its Knees.
• Wall Street also used leverage (borrowed money) to invest in mortgage related securities. Some companies borrowed money to the brink of their books.

• Then…. Just in time for the rate adjustment of the fancy loans, the Funds rate went up. Homeowners could no longer afford the payments nor were they able to refinance at a lower rate or sell at value.

• The wrath of foreclosures began, affecting the securities and leverage tied to the mortgages and Wall Street firms could not make good on the promises to investors – some even went under, spurring the economy downward.

Did anyone see this coming?
Where Do We Go From Here?

- While we will recover, this recession will most likely last for another three to four years.

- Unemployment will continue to rise, and you’ll see more corporations, consumers, the retail sector and others, struggling to stay afloat and cutting to the bare minimum.

- So what do **YOU** do? Focus on making sound financial decisions in order to protect yourself from a financial crisis.

Stop living under the “blissful ignorance” of borrowed money and the concept of “paying it later”.

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A Story of Ignorant Bliss

Change “Se Consigue” to “I have it”.

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“I don’t know where my money goes.”

Very few Americans know exactly how they spend their money. More than half don’t.
Take Action!

- Finances are a Priority | **Commit** To Taking Control
- Clean House | **Taking Financial Inventory**
- Find the Money | **Plan Your Attack**
- Budget & Spending | **Living Responsibly**
- A Little Extra | **Additional Income**
- Money Management | **Never Stop Learning**
“Being debt free would make me feel ______.”

Financial Freedom leads to less worry and better health.

Sleep better...

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Finances Are A Priority | Commit To Taking Control

• Forget the past and look towards a new beginning
• Set financial goals (be realistic)
• Work towards living below your means
• Establish a budget and stick to it
• Pay down debt
• Save, save, save
• Start an emergency fund
• Contribute to retirement/college regularly
“I Review All of My Statements Every Month.”

Few Americans actually open their statements. Most only worry when funds are low or bills are high.
Clean House | Taking Financial Inventory

- Choose a tool for tracking (i.e., Excel, Access, or a financial program)

- Paint the Picture: Calculate Your Net Worth (Assets – Liabilities)
  - Determine your total account balances
  - Determine your total debt

- Review Your Credit Report
  - Visit freecreditreport.com and review for inaccuracies
  - Know Your Credit Score – if your score is not above the 700 range, do something about it!
• Gather all of your paperwork
  – Bank Statements
  – Credit Card Statements
  – Financial Accounts (i.e., 401K, pension, etc.)
  – Insurance
  – Mortgages and Lines of Credit
  – Utilities

• Review all statements to determine:
  – Monthly Fees
  – Benefits & Services (Free or paid and their usage)
  – Interest Rate(s)
  – Penalty Charges
  – Accuracy of Information

Consumers pay more than $1 million yearly in unnecessary fees.
“With an extra $250 a month, I would _____.”
Find the Money | Plan Your Attack

• Time to **Negotiate** or Renegotiate Your Interest Rate on…
  – Mortgage
  – Insurance (Car, Life and Home)
  – Student Loan
  – Credit Cards

• Time to **Review**
  – Cable Bills, Telephone Services and other utilities
  – Subscriptions and Memberships
  – Conveniences (housekeeper, laundry services)
  – Spending habits

**FOCUS!**
Ask Yourself: Where Can I Save?

Find the Money!
Budget & Spending | Living Responsibly

• Keep Track of Your Expenses
  – Keep a “Dollar Diary” – jot down **every single** expense, no matter how small
  – Categorize your expenses, daily or monthly using your “tool”
  – At month’s end, review and see where you can eliminate (i.e., the “Latte Factor”)

• Calculate Your Cash Flow (Total Income – Total Expenses)
  – Add up all sources of **regular income**
  – Add up all expenses (count quarterly expenses too)
  – **Set a Budget** and stick to it!

> Your budget should reflect a 20% reduction of your actual **net** earnings.
Budget & Spending | Living Responsibly (con’t)

- Time to **Reconsider**
  - Eating out every day (yes, breakfast and lunch are eating out)
  - Entertainment and entertaining
  - Shopping for clothes, jewelry, cosmetics

- Time to **Start** Being a Smart Shopper
  - Use debit cards NOT credit cards – you can’t spend what you don’t have
  - Don’t rely on credit to “close the gap” between earnings and spending
  - Do comparison shopping
  - Consider alternatives to buying it new
  - Don’t wait till the last minute to obtain a need
  - Look for bargains, clearances, coupons
  - Register with free programs that reward you for spending

A visit to diners and other eateries is considered “eating out.”
“I shop to make myself feel better.”

Remove the word “want” from your vocabulary. If you don’t absolutely “need” it, walk away.
Reasons We Shop

- Depression
- Keep up with the Jones’
- Feel attractive
- Take a break from everyday rut
- Take a break from children, spouse, family
- Sometimes we just find ourselves in a store

“Retail Therapy” shoppers are more likely to file for bankruptcy.
“I will save for ____.”

Learn how to manage your money to save for the things you need.
Save, Save, Save

- Any amount counts – commit to saving regularly
- Do it automatically
- Pretend your savings are not there
- Build a reserve fund of 8 months
- Consolidate accounts
- Sweep unused money from checking to savings
- Empty your change purse every night

Saving just $10 a day can get you $8,000 in just three years.
The Signs of Financial Distress

• Late payments | Missed payments

• You’re barely making the minimum

• Your paycheck is gone even before it hits the bank

• Your expenses are greater than your income

• You’re using savings to cover basic expenses

Know when you’re in trouble and get help early.
“I never knew it was that bad.”

Most Americans live on borrowed money – it’s just a way of life.
A Little Extra | Additional Income

• Work overtime or part-time

• Use your skills to make extra money

• Some flexible opportunities
  – Blogging
  – Business Inspector | Phantom (Mystery) Shopper | Notary Public

• Sell Your Unused Stuff
  – Yard Sale | e-bay | Craig’s List | Amazon

Think of creative and flexible ways to make a little extra money.
Money Management | Never Stop Learning

- Read a money management book (i.e., Suze Orman or Jean Chatzky)
- Enlist the help of a financial manager
- Utilize on-line tools (i.e., bankrate.com and kiplinger.com)
- Stay informed by reading and watching (i.e., Carmen Wong Ulrich) but don’t overwhelm yourself with too much information
- See what your organization offers
- Review your situation regularly

Better control comes from having knowledge.
Commit to Financial Freedom
Call Madrinas for your “Dollar Diary”

Complete your Financial Inventory
Calculate Your Net Worth

Calculate Your Cash Flow
Get Your Rate Reduction Speech Ready

Review Your Credit Report and Score
Set Financial Goals
Establish a Budget
Pay Down Debt

Don’t Use Credit Cards
Set Aside an Emergency Fund

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“Make this the year you begin building the road to financial freedom.”

Questions?

For Your Dollar Diary send an e-mail to: yesi@yeseniamorillo-gual.com