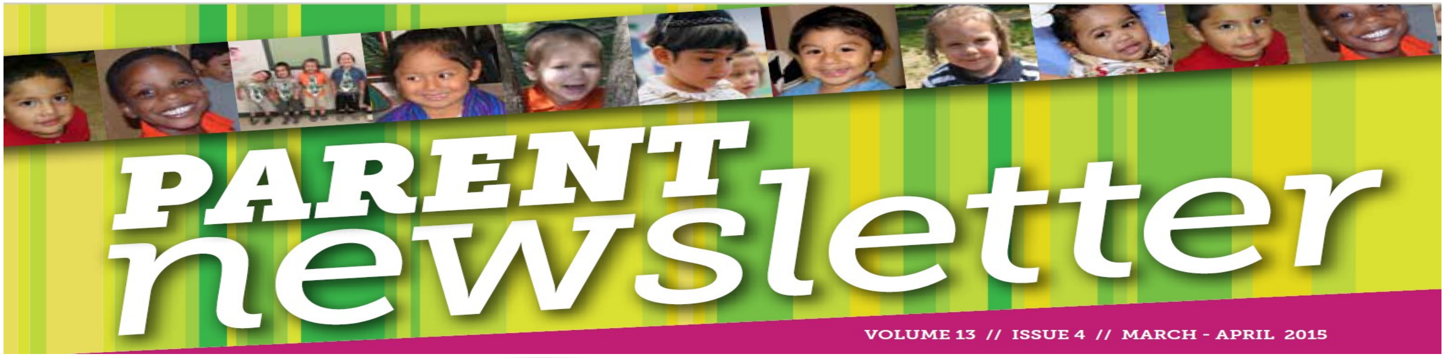

Financial Literacy

The Improving *School Readiness for Head Start Act of 2007* stresses the importance of family literacy. The last issue of the *YVY Parent Newsletter* focused on an array of literacy experiences which families can pursue, separately and together, to strengthen the learning bond and foster lifelong learning within the family. This issue of the *Newsletter* examines another important component of family literacy, Financial Literacy.

FINANCIAL LITERACY

One of the skills adults need to have in order to be equipped for the twenty-first century is the ability meet family needs and responsibilities, which is in many ways more complex now than it has ever been. Managing family resources, one component of this skill, involves developing and using a financial plan with realistic goals. Financial literacy is a necessary prerequisite to developing such a plan.

Financial literacy is the ability to use knowledge and skills to make effective and informed money management decisions. Personal financial literacy encompasses a range of money topics, from everyday skills such as balancing a checkbook to long-term planning for retirement. Understanding banking, credit, and savings is the first step towards attaining financial literacy.

CREDIT

Building a positive relationship with a bank can save money. Households that do not have bank accounts almost always pay more for check cashing and bill paying than they would have to with a bank. A bank account also establishes a record of paying bills, so that a credit history is built. This helps make it possible to secure an affordable loan or qualify for a credit card.

But all banks are not the same. Like everything else you shop for, you want to get the best deal you can when choosing a bank. Before opening a checking or savings account, there are a few questions that the consumer needs to have answered.

The first issue to be addressed is that of convenience. If banking is to be done in person, it is important that the bank be close to home and have convenient hours so that no slip-ups occur because of inaccessibility. If you choose to bank online, is it easy to move money back and forth between the online account and a local bank? Are ATM's easily available for cash withdrawals?

Cost is another factor that needs to be considered. What fees does the bank charge for its products and services and how do those costs compare to what other banks charge? Some banks have a minimum balance requirement for opening an account and require maintaining a minimum monthly balance. Some banks charge a per-use fee for writing checks, making ATM withdrawals, or using a non-bank ATM. Banks may also charge for online banking and bill paying. All banks do not necessarily charge these fees and, for those that do charge, fees differ from bank to bank.

You should be able to find information about what products and services a bank offers and its fees by visiting a branch office or the banks' website. The more questions you ask, the better prepared you will be to make an informed decision. If the bank's service department is not customer friendly and knowledgeable, you may want to take your business to another bank.

TIP: Be sure to ask about all the types of checking and savings accounts a bank offers. Most banks offer at least one very economical account that may provide all the service you need for very little cost. Young people, seniors and other groups may be eligible for reduced rates or other benefits.

Managing your accounts

When deciding where to bank, it is important to know how you will be using your account. When you deposit a check or cash in your bank, or money is deposited directly by your employer, a government agency, or any source that owes your money, the amount is credited to your account. How much money will typically be in the account? Will you be accessing this account mostly to write checks or to withdraw cash in person or at an ATM? Will you be using online banking? How often will you be accessing these services? This is important information to have on hand when evaluating your checking account options.

Financial Literacy and Your Child

We make great efforts to teach children to read and write, but we don't give children's financial literacy the same attention. As a result, few young people know how to manage their personal financial lives. Parents can begin to give children the skills to be financially literate even when they are very young.

By age three, most children comprehend that money can be exchanged for something they want. By age four, most children can associate the accumulation of coins in their piggy bank with the abstract concept of saving.

Financial literacy can begin with simple money concepts such as counting coins and making change for purchases. Young children can begin to learn to recognize the different coins and sort them by size. Some children can even learn the name of each coin and how much it is worth. Older children can learn how different combinations of coins can yield the same amount. After practicing, allow your child to count out coins to pay for a small purchase at the store, but plan on shopping when the store is not busy because this may take a while.

Waiting before acquiring something is an important lesson for children. If your child really wants a certain toy but does not have enough money to buy it, explain that he or she can save to pay for it. Help the child create a mini-budget for the purchase: How much does the item cost, how much money does the child already have, how much he or she is expected to "earn," and how long it will take to save the money? Point out that if the child spends money on something else, it will take longer to save for the goal. Writing this down, on a calendar for example, with the target date circled, can be helpful and motivational.

Do not step in at the end to help the child pay for the last few dollars. This diminishes your child's efforts and any feeling of accomplishment he or she may have – and may set you up for a lifetime of bailouts! Waiting to make a purchase is an excellent way to avoid impulse buying and is an effective tool for helping children determine what they really want and what they can do without.

While the concept of credit may be a stretch for most little ones, it is important to help your child understand that credit cards and checks are not free money. You have to "pay back" the money with real coins and bills that you have worked to earn.

Adapted from www.investopedia.com

Obviously, you cannot withdraw more money from your account than you put in. For emergencies, some banks offer overdraft protection, a special line of credit to cover checks or debit cards when there is not enough money in the account. That money is a short-term loan for which you will pay interest, but at many banks you will avoid the returned check fee; you will also avoiding the embarrassment of having a check "bounce" and potential damage to your credit history. In the case of a debit card, there may be a fee for automatic overdraft protection, in addition to interest when this protection is used. Some banks may also offer low balance alerts or links to a savings account to cover overdrafts.

Clearly, a better and more economical way to protect yourself from insufficient funds is by keeping careful track of your checking account balance. It is smart to record all deposits, debits and fees. You can access your balance by phoning the bank or by accessing your account online; you do not need to wait for your monthly statement to arrive. It is also very important to monitor all mail that comes from the bank, to be sure you do not miss important information that needs to be acted upon.

TIP: If you are unable to open an account because you do not meet the bank's criteria or have had trouble managing an account in the past, inquire about "second chance" checking programs. You can also consider opening a savings account, which has fewer criteria. If one bank denies you, it also pays to investigate other financial institutions in your area.

When opening a savings account, in addition to checking the interest the bank will pay you (APY, or annual percentage yield), you should also inquire about monthly minimum balance requirements, fees, any fee waivers that are offered, and monthly withdrawal limits. These differ from one bank to another.

CREDIT

Most consumers use credit cards to pay for many of their purchases. Credit cards are a convenient way to pay for everyday expenses and offer many benefits. Credit cards allow you to obtain goods and services now and pay for them over time. In effect, you have a revolving line of credit which allows you to make purchases up to an approved dollar limit and allows you to re-borrow the money as you pay it back. Credit cards also allow you build a credit history. However, credit cards also have many pitfalls.

If you pay off your balance monthly, credit cards are an enormous convenience. You do not have to carry cash, and you can have a record of your monthly purchases. However, if you carry a balance on your card and pay your bill over time, you will likely pay a very high interest rate for this convenience. Also, all new purchases on the card do not carry any grace period, and interest is charged from the date of purchase. Small charges add up quickly!

Just as when choosing a bank, you need to shop around for the card that meets your needs. Be sure to compare the APR (annual percentage rate), the interest rate, on different credit cards if you will not be paying off your balance monthly. Zero percent interest rate promotional offers are very enticing, but you must pay off the entire purchase by the time the promotional period ends. If you don't, the lender will charge interest – at the lender's standard rate -- from the date you bought the item. Reward cards earn points towards goods and services, or offer cash rebates. While these rewards sound great in advertisements, the point formula can be complicated, rules are subject to change, and the benefits may not be as generous as they sound. Always be realistic about your use of the card before accepting an expensive annual fee in return for rewards. More spending can easily cancel out the relatively small rewards that are offered.

Your Credit Score

A credit score is a number lenders use to help them decide whether to give a person a loan or credit card. It is a snapshot of your credit risk at a particular point in time. Your credit score is calculated by evaluating your credit history, and specifically whether you pay on time; the total amount you owe; the length of your credit history; the amount of new credit you have; and, the types of credit you use. Your credit score may fall if you exceed the credit limit on your credit or debit card or carry large balances in proportion to your credit limit. A lower credit score can make it difficult or more expensive to get new credit in the future.

TIP: Credit cards are not the same as debit cards. With a credit card, you buy now and pay later; a debit card immediately takes the money out of your bank account. Credit cards sometimes offer bonus points and cash rebates, as well as purchase protection in case your purchase is defective; debit cards may offer some purchase protection. Credit cards have many fees and penalties if balances are not paid in full, and overspending can cause debt problems; debit cards may have fees on certain transactions and there is a danger of overdrawing your account, but serious debt problems are avoided. If your credit card is stolen, your liability for unauthorized transactions is capped at $50; with a debit card, unauthorized transactions are immediately taken out of your checking account. If you notify the bank within two business days after discovering the theft, there is a cap on liability. Otherwise, you may be responsible for a larger amount. A credit card will allow you to build a credit history, but a debit card will not.

SAVING

Most people think they know where their money goes, but are shocked to discover that they may not be as aware as they think. Experts say that most people, from all walks of life, spend about 20% more than they think they do. Experts also recommend keeping at least three months' expenses in a reliable, liquid account – even an extra $1,000 can be a life saver.

Here are some tips to help you save:

First, find a safe place to save your money. You will want to save your money in an account that you can access easily in case of an emergency. That means you should probably not keep these savings in a U.S. Savings Bond or in mutual funds. Choose a traditional savings account or a short-term certificate-of deposit (CD), currently the most attractive accounts. (Early withdrawal penalties on a CD rarely lower the yield below that of a savings account.) Consider opening a new account or sub-account for this money so you're not tempted to spend it. Most importantly, do not keep savings in a checking account, which pays no or low interest and is too easy to access. It can also help to pay yourself first and save a specific amount at the beginning of the month instead of waiting to see if you have money left over to save at the end of the month.

To find small savings that add up to big savings over time, keep a careful record of all your expenditures for a month. You may be surprised to learn how much you are spending on non-essential items.

• For necessary purchases — such as food, transportation and insurance—comparison shop to find the lowest prices. Also, take a list with you to the grocery store and stick to it. This will help you from buying items you don't need.

• Automate Your Savings – Setting up an automatic way to save is one of the best ways to save. Once you set it up, it happens without having to think about it. Ask your employer to deduct a specific amount from your paycheck and transfer it to a savings account, or ask your bank to automatically transfer funds each month from your checking account to a savings account. Even as little as $10 or $15 a month helps. After all, that's $120 or $180 a year. Also put all your loose change in this savings account. For many people, that could add up to well over $100 a year.

• Aim for short-term savings goals, such as setting aside $20 a week or month rather than long-term savings goals, such as $200 over a year. People save more successfully when they keep the short-term goal in sight

• Never purchase expensive items on impulse. Think over each expensive purchase for at least 24 hours. Acting on this principle will mean you have far fewer regrets about impulse purchases, and far more money for emergency savings.

• If your employer matches retirement savings contributions, be sure to take advantage of that.

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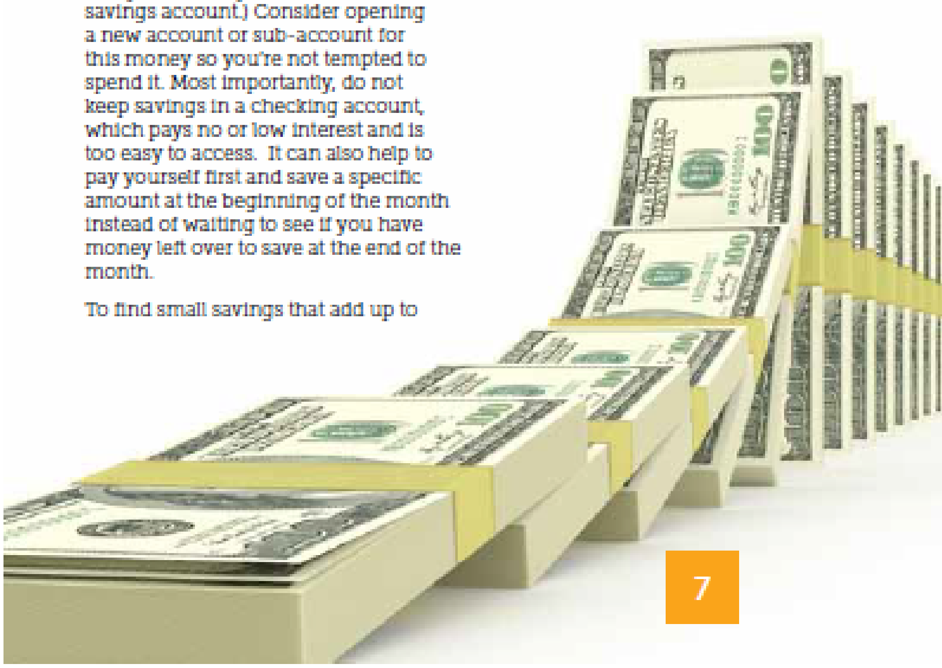

Resources for Financial Literacy

Interested consumers can find many different kinds of resources to further educate them about financial literacy on many different levels.

An excellent local resource:

The Science Industry and Business Library

188 Madison Avenue at 34th Street, NYC

NYPL.org

The Financial Literacy Center at the Science Industry and Business Library has a circulating collection of over 1800 books and DVDs covering all areas of interest to the financially curious, from budgeting and credit repair to investment strategies in stocks, bonds, mutual funds and real estate along with exotic forms of investing such as futures and derivatives.

Financial Planning Day @ SIBL

Friday, April 24, 2015,

11 am–5 pm:

Free financial counseling and credit crisis coaching, as well as classes and database demonstrations.

Consult the website for details.

Websites:

www.mymoney.gov
www.americasaves.org
www.fdic.gov/

A search under "financial literacy" will yield additional interesting websites. Be sure you know who the sponsor of the website is. Government websites are dedicated to protecting the consumer. Commercial websites may be interested in selling a product.

Head Start parents can access these websites and others at the YVY CIRC Parent Library at the YVY Learning Center, 1257 38 Street. DVD's of the FDIC's Money Smart curriculum will also be available for borrowing.

- Take the amount an item costs and divide it into your hourly wage. If it's a $50 pair of shoes and you make $10 an hour, ask yourself, are those shoes really worth five long hours of work? It helps keep things in perspective.

- Reduce High-Cost Debt. Avoid using high-interest credit cards. The interest rate on credit card debt can run as high as 25 percent. You can save hundreds, perhaps thousands, of dollars a year by paying off these high-cost debts. If you reduce credit card debt by $1,000 it will probably save you $150-200 a year, and much more if you're paying penalty rates of 20-30%.

- Use debit and credit cards prudently. To minimize interest charges, try to limit credit card purchases to those you can pay off in full at the end of the month. If you use a debit card, don't rely on an overdraft feature to spend money you don't have.

- If you qualify for an Earned Income Tax Credit, pay down debt with at least half of the money you receive

- Avoid bouncing checks or overdraft fees each month. The $20-30 you save by not bouncing a check each month would save you enough money to nearly fully fund a $500 emergency savings account.

- Make your monthly credit card payment on time. The $30-35 you save by not being charged a late fee each month on one card would save you most of the money you need for $500 in emergency savings

- Use only the ATMs of your bank or credit union. Using the ATM of another financial institution once a week could well cost you $3 a withdrawal, or more than $150 over the course of a year.