

# BUILDING A BUDGET 101

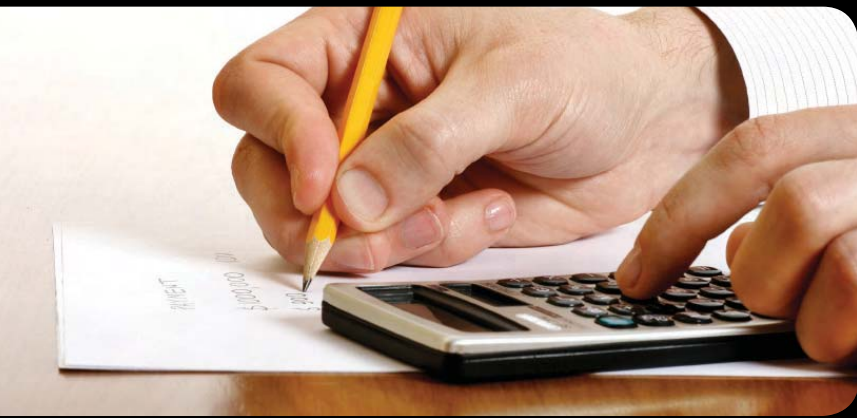


This book is intended as a general guide to the topics discussed, and it does not deliver accounting, personal finance, or legal advice. It is not intended, and should not be used, as a substitute for professional advice (legal or otherwise). You should consult a competent attorney and/or other professionals with specific issues, problems, or questions you may have.

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## The Basics of Budgeting

Did you know that people who “have it all” didn’t get there by accident? They made a financial plan and stuck to it! Let us teach you the steps of creating your own personal financial plan and how to follow it.

Most of us hate the idea of a household budget! However, a budget is a basic and important money management tool for getting out, and staying out of debt. A budget is nothing more than a written plan for how you intend to spend and save your money each month.

Living on a budget makes it easier for you to:

- Build up your savings so you have money to fall back on if you’re hit with unexpected expenses.
- Purchase big ticket items without having to use credit cards.
- Help make your families dreams come true such as: new home, vacations, college educations, and a comfortable retirement.

On the following pages are 12 monthly budget worksheets. Make sure you trace your monthly variable expenses, such as groceries, gas, and entertainment, being mindful of every dollar you spend. Refer to your budget regularly to make sure you are staying on track. If you find you’ve overspent in one area, try to compensate by reducing in another.

Make budgeting a fun and pleasant experience for the entire family. Let them share in the successes but also allow them to understand when you’ve overspent in an area. Post your budget on a bulletin board or in the kitchen where your family can see it on a regular basis.

# Budget Worksheet

Item	Expected	Actual	Difference	Due Date
<b>Income</b>				
My pay	\$ _____	\$ _____	\$ _____	_____
Spouse's pay	\$ _____	\$ _____	\$ _____	_____
Commissions	\$ _____	\$ _____	\$ _____	_____
Other income	\$ _____	\$ _____	\$ _____	_____
<b>Total Income</b>	\$ _____	\$ _____	\$ _____	_____
<b>Home Expenses</b>				
Mortgage/Rent	\$ _____	\$ _____	\$ _____	_____
Second Mortgage	\$ _____	\$ _____	\$ _____	_____
Property taxes	\$ _____	\$ _____	\$ _____	_____
Insurance	\$ _____	\$ _____	\$ _____	_____
Repairs	\$ _____	\$ _____	\$ _____	_____
Phone	\$ _____	\$ _____	\$ _____	_____
Heat	\$ _____	\$ _____	\$ _____	_____
Lights	\$ _____	\$ _____	\$ _____	_____
Water	\$ _____	\$ _____	\$ _____	_____
Cable	\$ _____	\$ _____	\$ _____	_____
Garbage	\$ _____	\$ _____	\$ _____	_____
Other _____	\$ _____	\$ _____	\$ _____	_____
<b>Transportation Expenses</b>				
Car payment 1	\$ _____	\$ _____	\$ _____	_____
Car payment 2	\$ _____	\$ _____	\$ _____	_____
Gas	\$ _____	\$ _____	\$ _____	_____
Car Insurance	\$ _____	\$ _____	\$ _____	_____
Repairs/Maintenance	\$ _____	\$ _____	\$ _____	_____
Other _____	\$ _____	\$ _____	\$ _____	_____
<b>Other Expenses</b>				
Savings	\$ _____	\$ _____	\$ _____	_____
Children's Education	\$ _____	\$ _____	\$ _____	_____
Groceries	\$ _____	\$ _____	\$ _____	_____
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## Calculate Your Debt To Income Ratio

Your debt to income ratio is an important number to be acquainted with. It tells you how your monthly debt payments compare to your monthly income. A high debt ratio might indicate that your monthly expenses are becoming unmanageable. It also might discourage lenders from loaning you any more money. Use the table below to determine whether your debt ratio is acceptable or too high.

Gross Monthly Income		Outstanding Monthly Debt Payments	
Salary/Wages		Mortgage/Rent	
Social Security		Credit Cards (Minimum Payments)	
Military Pay		Student Loan Payments	
Pension/Retirement Income		Automobile Payments	
Investment Interest		Recreational Vehicle Payments	
Alimony/Child Support		Other Loan Payments	
Rental Income		Other Loan Payments	
Unemployment		Other	
Food Stamps			
Royalties			
Business Income			
Other			
Other			
Total Monthly Income	\$	Total Monthly Debt	\$

### Calculated Debt to Income Ratios

$$\begin{array}{c} \text{Total Monthly Debt Payment} \\ \$ \end{array} \div \begin{array}{c} \text{Total Gross Monthly Income} \\ \$ \end{array} = \begin{array}{c} \text{Total Debt to Income Ratio} \\ \% \end{array}$$

\* We suggest this be under 40%

**Total Debt to Income Ratio.** The total debt to income ratio is a personal finance measure that compares an individual's debt payments to the gross income he or she generates. This measure is important in the lending industry as it gives lenders an idea of a borrower's ability to repay the loan. The higher the ratio, the more burden there is on the individual to make payments on his or her debts. If the ratio is too high, the individual will have a hard time obtaining other forms of financing. On average, a good total debt to income ratio is under 40%.



# Figuring Your Net Worth

It's a good idea to look at your present personal and financial situation when setting realistic goals. To figure out your Net Worth, tally all your assets (what you own) then subtract that from your liabilities (what you owe). The difference is your net worth.

Assets		Liabilities	
Cash - checking accounts		Unsecured Debt	
Cash - savings accounts		(credit cards, signature loans, etc.)	
Certificates of Deposit		Secured Debt	
Securities - stocks/mutual funds		(autos, campers, boats, etc.)	
Life Insurance (cash surrender value)		Student Loans	
Personal Property (autos, jewelry, etc.)		Real Estate Mortgages	
Retirement Funds (IRA, 401K, etc.)		Other Debt	
Real Estate (home, land, etc.)		Other Liabilities	
Other Assets			
<b>Total Assets</b>	\$	<b>Total Liabilities</b>	\$

**Calculated Net Worth**

Total Assets	-	Total Liabilities	=	Net Worth
\$ <input style="width: 100px;" type="text"/>		\$ <input style="width: 100px;" type="text"/>		\$ <input style="width: 100px;" type="text"/>



## Six Warning Signs of a Financial Problem

- 1 More than 20% of your monthly net income is going to pay back credit cards and other loans (excluding mortgage).
- 2 You're borrowing money to make payments on loans you already have.
- 3 You're frequently at, near, or over the limit on your credit cards.
- 4 You're paying only the minimum required on your credit card bill.
- 5 You're paying bills late or putting off visits to the doctor because you don't think you have enough money.
- 6 You're working overtime or a second job just to cover food, housing, and other living expenses.

## Pitfalls That Could Destroy Your Spending Plan

- Medical emergencies
- Holidays
- Vacations
- Repair bills
- Auto accidents
- Lack of emergency fund
- Gifts

## Examples That Drain Your Budget Dry

- Parking tickets
- Unread subscriptions
- Unread newspapers
- Ignored repairs
- Leftover food
- Quick car acceleration
- Air/moisture leaks in your home
- Late fees
- Unused phone services
- Water left running
- Leaky faucets
- Lights left on
- Impulse shopping
- Eating out frequently

## Money-Saving Tips

- Pay down debt
- Refinance mortgage
- Bundle insurance with one company
- Use credit cards wisely
  - Only charge what you can pay in full
  - Eliminate late payment fees; pay on time
  - Understand rates, terms and conditions of credit cards
- Send in rebates and use coupons
- Drive sensibly to save on gasoline
- Brown-bag it
- Don't go grocery shopping when you're hungry and make a list first
- Call on cell phones during off-peak hours
- Use ceiling fans instead of your air-conditioning
- Make saving a habit
  - Payroll direct deposit
  - Save one year's raise
  - Holiday club account
  - Automatic withdrawal
- Start a change jar
- If you drink a lot of bottled water, get a water filter for your sink faucet instead
- Check out a pay-as-you-go plan for your cell phone
- Cut out the soft drinks
- Quit smoking
- Change your own auto oil
- Make family meal menus and stick with them
- Set your thermostat relatively high in the summer and low in the winter
- Consolidate debt if you get lower payments, a shorter term and a lower rate, but be sure that the money this frees up goes to pay off the debt or is saved
- Check your hot water heater and make sure it is not set too high
- Get magazine subscriptions vs. buying off the rack
- Only wash clothes or dishes when the washer is full
- Caulk around windows, doors and any cracks on the outside surface of your home
- Buy a home - usually payments for a home are similar to the rent you are now paying and you will also be building equity
- Have a garage or yard sale



# Building a Budget 101

The majority of the information contained in this book is from NEFE (National Endowment For Financial Education).

However, some of the information is based on the opinions of Capital Credit Union.

