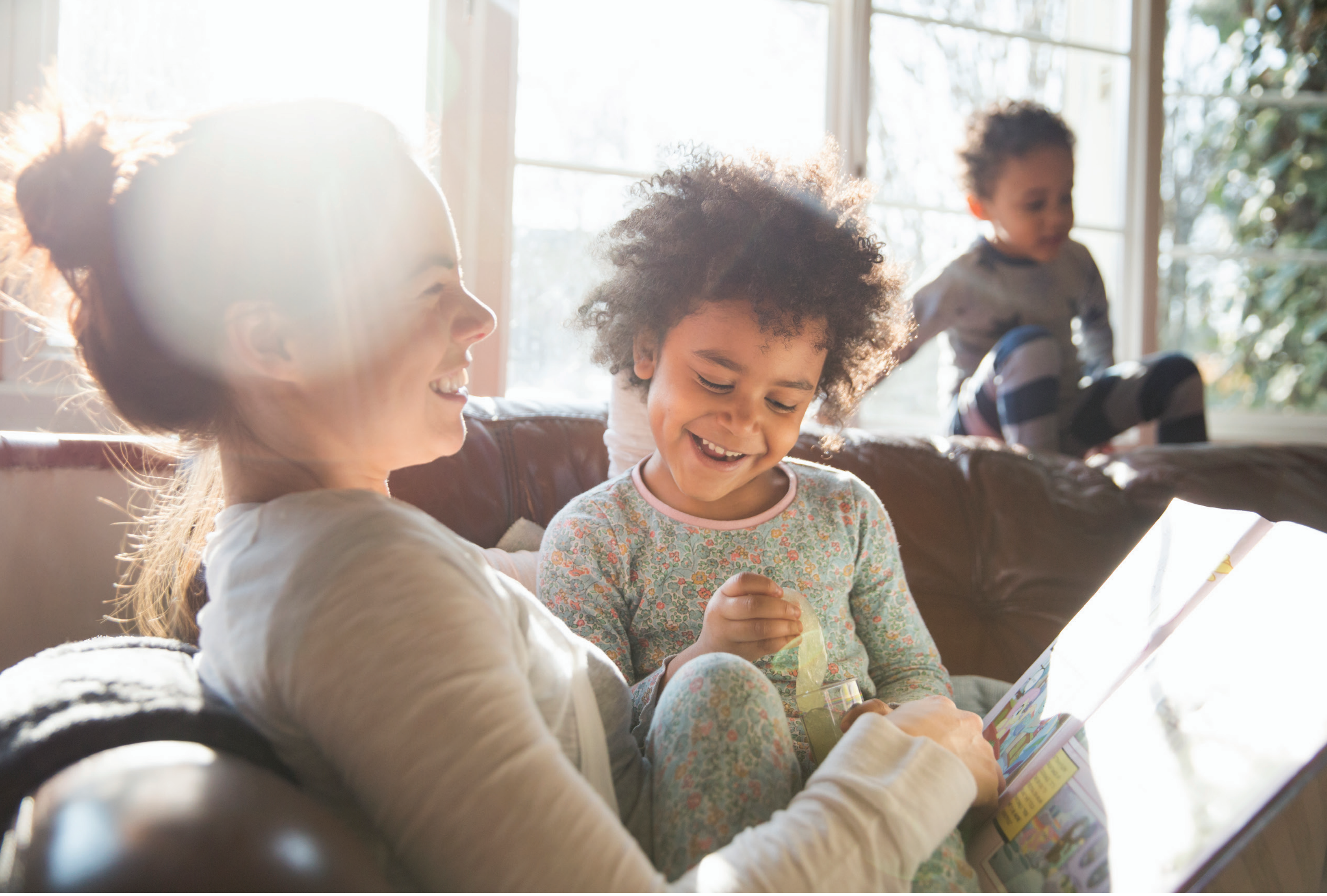

DEBT 101:

HOW TO REDUCE DEBT AND MANAGE SPENDING

Become more intentional on your Wise With Money Journey.

THRIVENT
FEDERAL CREDIT UNION®

DEBT 101:

HOW TO REDUCE DEBT AND MANAGE SPENDING

CREDIT CARD BILLS.
CAR PAYMENTS.
MORTGAGES.
STUDENT LOANS.
MEDICAL BILLS.

DEBT TAKES ON MANY FORMS THROUGHOUT OUR LIVES.

Whatever kind of debt you have, you need a plan to manage it. Why? Because many of us are ignoring debt altogether and it's ultimately hurting our relationship with money.

Seventy-five percent of Americans live paycheck to paycheck. More than half have less than $1,000 reserved for emergency purposes. Our society's debt-to-income ratio is impeding the simple acts of saving and giving. It's time to prioritize financial goals and bring purpose to spending.

IN THIS GUIDE, YOU'LL LEARN:

How to make decisions about debt.	**PG 2**
The importance of your credit score and what it means.	**PG 5**
Debt danger signs.	**PG 7**
How to develop a debt reduction plan.	**PG 7**
How to make new financial habits stick.	**PG 8**

DEBT DECISIONS: WHAT YOU NEED TO KNOW

Debt carries a bad reputation. Most of the time, we pair debt with the many negative aspects that go along with it: poor credit, costly monthly payments, lots of interest. But not all debt is created equal. Everyone accumulates debt in some form and if it's used wisely, it can be a good asset. So, what's the real deal with debt, and how do we know if we're using debt properly?

Before you make a financial decision that includes debt, ask yourself if your purchase is something that is:

- Going to increase in value over time.
- Going to generate income.
- Tax-deductible.

Wise uses of debt include:

- Home mortgages.
- Business loans.
- Student loans.
- Other real estate loans.

WHY IS IT "OK" TO GO INTO DEBT FOR THESE EXPENSES?

Because what you invest in your education will pay dividends later in terms of higher salary and increased job prospects. Buying a house is a stable and beneficial investment compared to renting and building no equity. Consider these two investments first when you're ready to acquire debt.

WHAT DOES THE BIBLE SAY ABOUT DEBT AND SPENDING?

"Then he said to them, 'Watch out! Be on your guard against all kinds of greed; life does not consist in an abundance of possessions.'"

Luke 12:15 ESV

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WHEN SHOULD I THINK TWICE ABOUT USING DEBT?

When you use debt to buy short-term consumer goods like clothing, entertainment or electronics, you're setting yourself up for potential issues down the road.

Think twice about going into debt for items that:

- Have a short life span with little resale value.
- Will not generate income or wealth.
- Come with a very high interest rate.

While we often classify debt as both negative and positive, it's important to note that debt is inevitable. Financing furniture or a television is a must for some people.

Examples of bad debt choices include:

- Opening a credit card with a high interest rate, and only meeting the minimum monthly payments.
- Keeping balances on credit cards every month.
- Taking out a loan to finance lifestyle choices.

HOW TO AVOID MORE DEBT

- *Take the time to review your spending habits and identify weaknesses.*
- *Work to avoid spending temptations or triggers.*
- *Use a budget tool to keep financial goals on track.*

HOW TO MANAGE DEBT

When you're buried in reoccurring payments and climbing interest rates, it's easy to feel controlled by your debt. Debt becomes overwhelming when you lose track of payments and record keeping. Remember: No matter what kind of debt you have – good, bad or both – you need a way to manage it. Take charge of your debt in the following ways:

- **Have a plan:** Whether it's a new house or a store credit card, put a plan together, and stick to it. How much will you pay each month? From what account? How will you hold yourself accountable? Ask these questions before you make a final decision about taking on debt.
- **Set goals:** Think about your financial journey. What are the main financial milestones you want to reach throughout your lifetime? How will you achieve them? Keep these goals in mind when you're making spending decisions. When you become goal-oriented about money, you can be more intentional with spending.
- **Keep track:** Record keeping is a good way to control your finances, and it applies to debt and investments as well. Create a file – paper or electronic – where your payment plans live. Monitor how much you owe for all your debt sources, no matter how big. Consider using an online tool to manage transactions. If you can do this, you'll have more control over your debt than the average consumer.
- **Get help:** If you're in a place financially where your debt has become overwhelming, don't be afraid to find help. When you work with a financial professional through a free debt consultation, you can find creative ways to restructure debt.

WHAT DOES THE BIBLE SAY ABOUT PLANNING?

"For which of you, desiring to build a tower, does not first sit down and count the cost?"

Luke 14:28

YOUR CREDIT SCORE, AND WHY YOU SHOULD CARE

Everyone says you should have good credit, but why? What difference does a score make – and what's in it for you?

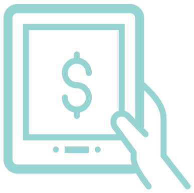
In the most basic terms, a credit score is a 3-digit number that shows lenders how risky (or not) you are to lend to. Pay attention to your credit score if you:

- Are preparing to apply for a loan.
- Want a low interest rate on the loan you're applying for.
- Are trying to get approved to rent a home, apartment or condo.

In addition to those reasons, maintaining a good credit score is a financial management best practice. You never know when you may need it. Some employers, utility companies and even cell phone carriers care about your score. It's also important to check your score annually to make sure you're clear of any fraudulent activity.

There are many factors that are calculated to determine your credit score:

- **35%:** Payment history – the history you have established of making payments on time (or not).
- **30%:** The amount you currently owe to creditors.
- **15%:** The length of your credit history.
- **10%:** New credit.
- **10%:** The types of credit you have.



FOR MORE INFORMATION ABOUT CREDIT REPORTS AND SCORES, VISIT:

annualcreditreport.com
ftc.gov
myfico.com
optoutprescreen.com
creditkarma.com

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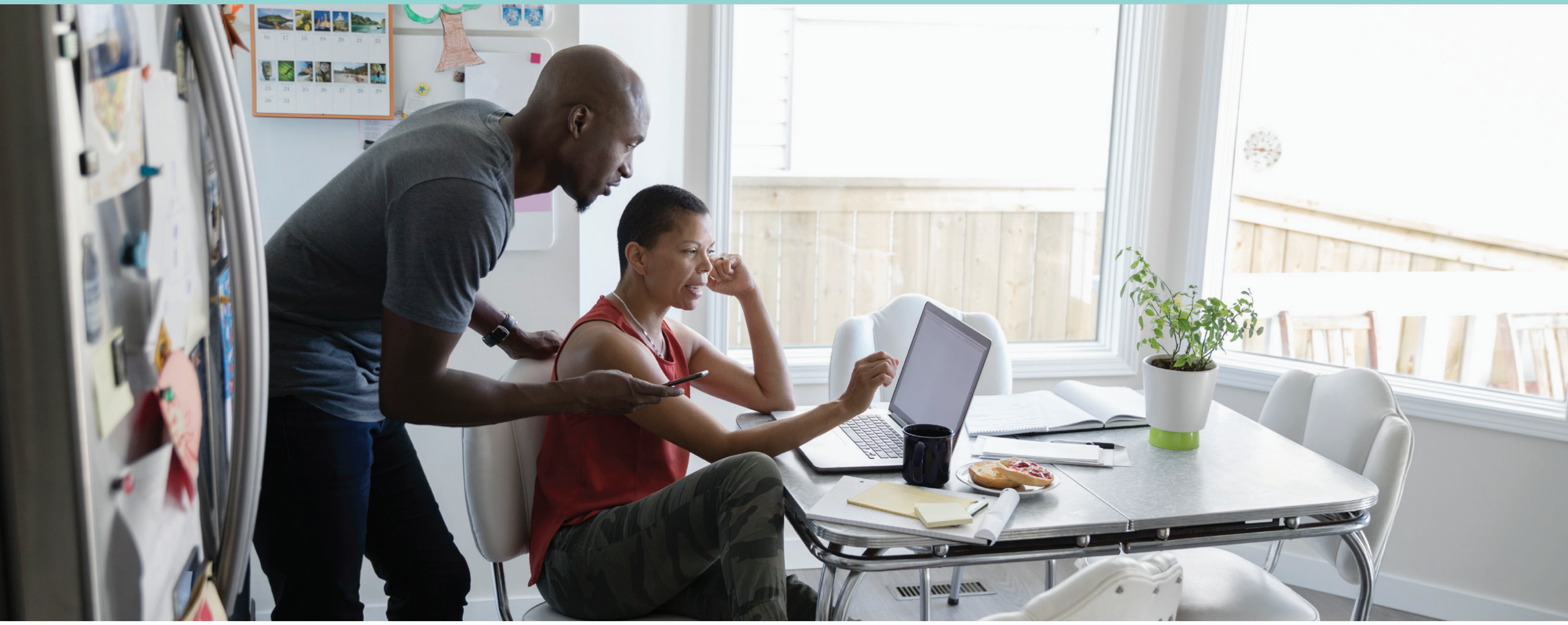

CREDIT SCORE MANAGEMENT

Just because you have debt doesn't mean that you can't also have a good credit score. **Consider these tips to maximize your score:**

- Keep your oldest cards open.
- Use caution when consolidating and closing out credit cards.
- Closing a card doesn't erase your history from your credit score.
- Develop a good credit mix, not just credit cards.
- Borrow from good sources (payday lenders can also be hurtful to your credit).
- Avoid collections, bankruptcy and civil judgments.
- Ask creditors for forgiveness.
- Dig for and correct any credit errors with creditors.

What doesn't impact your credit score?

- Age
- Race
- Religion
- Gender
- Marital status
- Where you live
- Current interest rates

CREDIT UTILIZATION RATIO

Ever heard of a credit utilization ratio? It's a large factor that plays into your credit score and impacts the ability to take out new loans. The ratio is a measure of how much you owe on your credit cards compared with the cards' limits.

Aim for 35% or less.

DEBT DANGER SIGNS

According to a NerdWallet study, debt in America has increased by 11% over the past 10 years. The average American household has more than $16,000 in credit card debt. If debt is “normal,” when do you know if you’re in over your head?

Red flags include:

- Taking out a loan to repay existing debt.
- Charging more on a credit card each month than you’re paying.
- “Juggling” (rotating) bill payments.
- Using credit card cash advances for bills.
- Managing chronically overdrawn bank accounts.
- Depending on overtime for income.
- Maxing credit limits.
- Receiving calls and letters about overdue bills.

If these red flags resonate with you, it’s time to develop a debt reduction plan. In addition to meeting with a financial representative to learn more about debt consolidation, you should step back, review your spending habits and identify road blocks.

Strategies to reduce debt include:

- Adhering to a budget.
- Aggressively paying down debt, focusing on the payments with the highest interest rate first.
- Reducing spending.
- Focusing on building emergency reserve savings.
- Finding additional income.

5 WAYS TO REDUCE DEBT

WHAT DOES THE BIBLE SAY ABOUT SAVING?

“The wise store up choice food and olive oil, but fools gulp theirs down.”

Proverbs 21:20

MAKING NEW HABITS STICK

So, you've committed to new financial practices that will help you make smarter spending and saving decisions. How will you make sure those habits stick?

- **Set SMART goals:** When you begin to form thoughts around financial objectives in your life, make sure your goals are **S**pecific, **M**easurable, **A**chievable, **R**elevant and **T**ime-bound (**SMART**).
- **Use a budget tool:** Divide your income into buckets that make sense for your lifestyle. Establishing parameters around things like needs, wants, giving and saving will help you stay focused on financial goals.
- **Share your goals:** Finances are personal, but you can still find ways to stay accountable. Sit down with your partner, spouse or close friend and describe your short- and long-term goals. Enlist people you trust to help you stay focused and keep you accountable.
- **Review often:** Take time to schedule weekly and monthly "money checkins."

These can be done alone or with a partner or spouse. Review transactions, talk about big spends and plan for upcoming expenditures.

WHAT DOES THE BIBLE SAY ABOUT WEALTH?

"Wealth gained hastily will dwindle, but whoever gathers little by little will increase it."

Proverbs 13:11

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