# Watchdog Insights: Managing Debt

**If you are an experienced borrower but need help budgeting, this guide is intended to help you with managing debt.**

## Budgeting


Managing debt requires you to look at two different aspects of your finances: the income you bring in and the debt you pay out. In the next few pages, we will provide you with charts so you can track your debt to income yourself.

First let's understand the income you bring in to understand what your true debt-to-income ratio would be.

**Examples of income may be:**

- Earned income
- Income from assets or investments
- Public benefits or entitlements that pay money
- Other benefits, entitlements, gifts, child support, and alimony

Now, let's review your debts and use the tables provided to best understand your debt versus your income.

**You can find information on your debts on:**

- Your credit reports
- Monthly bills & statements
- Loans or credit documents
- Personal agreements for loans from family, friends, or others

Unexpected emergencies can create unmanageable debt quickly. To avoid this, you should budget a regular contribution into an emergency savings account. These are tips to help you begin an emergency savings and how to manage it.

**How much should I save?**

- A good rule is to save enough to cover three to six months' worth of living expenses.

**How do I build an emergency savings?**

- Calculate your debts and figure out how many months' worth of income you want to save.
- Set a monthly goal and stick to it.
    - Have funds automatically moved into your emergency savings from your monthly deposits.
    - Save your loose change and deposit it into this account.
    - Save a portion or all of your tax refund for this savings.

**Where should I keep my emergency funds?**

- Make sure that you have a separate savings account from your emergency savings and know when to use it.
    - You can use either a regular savings account or a high-yield savings
    - Make sure that your emergency funds aren't locked away in a CD or an account that could have fee impacts when you need to use it.

**When would I use emergency funds?**

- Any sudden or unexpected occurrence that would financially impact you in any way.
    - Medical expenses
    - Automotive repairs
    - Home repairs or appliance replacement
    - Unexpected employment impacts

**Let's move on to the charts provided in the next page to input your income, debts, and figure out your ratio.**

| Sources of income | Deposit Amount | Deposit date | Reoccurring Deposit? |
|---|---|---|---|
| 1 | $ | | |
| 2 | $ | | |
| 3 | $ | | |
| 4 | $ | | |
| 5 | $ | | |

| Who you owe money to | Total amount you owe | Payment amount * | Payment due date | Interest rate and other important terms |
|---|---|---|---|---|
| 1 | $ | $ | | |
| 2 | $ | $ | | |
| 3 | $ | $ | | |
| 4 | $ | $ | | |
| 5 | $ | $ | | |
| 6 | $ | $ | | |
| 7 | $ | $ | | |
| 8 | $ | $ | | |
| 9 | $ | $ | | |
| 10 | $ | $ | | |
| 11 | $ | $ | | |
| 12 | $ | $ | | |
| 13 | $ | $ | | |
| 14 | $ | $ | | |
| 15 | $ | $ | | |
| 16 | $ | $ | | |
| 17 | $ | $ | | |
| 18 | $ | $ | | |
| 19 | $ | $ | | |
| 20 | $ | $ | | |

**For revolving debt, like credit cards, enter the minimum payment due.*


**Using your total income and your total monthly debt, you will take your income and divide it by your monthly income**.

For example, if each month you pay $1,000 for your mortgage, $250 for your auto loan, $150 for student loans, and $200 for various other debt, your total amount of your monthly debt is $1,600.

To calculate your gross monthly income, take your salary and divide it by 12. So if your annual salary is $60,000, your gross monthly income would be $5,000.

Now, take your monthly debt ($1,600) and divide it by your gross monthly salary ($5,000). Then convert the resulting number (0.32) into a percentage by multiplying it by 100; in this case, 32% is your debt to income (DTI).


A good rule of thumb is to keep your debt-to-income ratio to 35% or less. At this percentage, you most likely have money left over to save or spend after you pay your bills.

If your DTI is higher than 35%, you will want to evaluate your budget to find ways of reducing your amount of debt so that you can start or contribute to your emergency fund, as well as increase the amount of money you have available for enjoyment.

Review the amounts you are spending on unnecessary items so that you can pay more on accounts that charge interest for using their money—the usual priority is eliminating debt on high interest credit cards first and then tackling other sources of debt until you are debt free.

**Use this checklist to help you consider alternatives to borrowing and ways to make better debt-managing decisions for any future plans.**



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### Short-term Alternatives

- ☐ Think about why you need to borrow money. Do you need a loan to pay for a need, an obligation, or a want? If it's a want, consider spending less, not buying it, or waiting until you have the funds to pay for it.
- ☐ Explore options in your community. There may be programs offering assistance in paying bills, such as utility bills.
- ☐ If you are considering borrowing money as a way to pay a bill, try to negotiate for more time to pay the bill or set up a payment plan instead.
- ☐ Use lower-cost alternatives from a financial institution. They may offer small-dollar credit-building loans. Do not assume that you will not qualify. Find out.
- ☐ Use your emergency savings.
- ☐ Borrow from a friend or family member.
- ☐ Other: ______________________________________________

### Long-term Alternatives

- ☐ Build an emergency fund. You can be your own payday lender when there are unexpected expenses.
- ☐ Make a spending and saving plan. Use it to identify why you need to borrow money. Find ways to reduce expenses or increase your income.
- ☐ Ask lenders, landlords, utilities, and others to move monthly due dates closer to when you receive income.
- ☐ Take steps to repair your credit. Apply for a credit-building loan.
- ☐ Apply for a credit card and only use it to cover emergencies.
- ☐ Get another job or increase your hours at your current job.
- ☐ Other: ______________________________________________

**Review your loans and find ways to pay your debt off faster.**

Utilize our online calculators that can help you with auto loans, home loans, budgeting, debt management, savings, retirement, and home equity loans.

Visit our website at: [www.sccu.com/services/calculators](www.sccu.com/services/calculators)