

# Spotlight *On Finance*

Tennessee Department of Financial Institutions

## April Is Financial Literacy Awareness Month

In an effort to continue providing valuable financial information to our readers, the Department of Financial Institutions would like to take this opportunity to inform you about resources that are available to you to help you meet all of your financial goals. Understanding finances and how your life can be affected by both good and bad habits can mean the difference in getting ahead of the game financially, or paying out more money in the long term.



Have you been seeking opportunities to get your entire family involved in financial education? Money Smart Week will take place April 18-25, 2015. This is a national initiative established by the Federal Reserve Bank of Chicago, in 2002, as a public awareness campaign designed to help consumers in managing their personal finances. The American Library Association joined this effort five years ago and libraries across the country are providing free financial education seminars and workshops throughout the week, which include establishing a budget, first-time home buying and estate planning. One such library in Tennessee, the King Family Library in Sevierville, has the following activities scheduled in conjunction with Money Smart Week:

Saturday, April 18, 2015 3:00 PM to 5:00 PM Sevier County	Topic: Title: Where:	Kids and Money Tennessee Saves Piggy Bank Contest King Family Library 408 High Street Sevierville, TN 37862
Monday, April 20, 2015 6:00 PM to 7:00 PM Sevier County	Topic: Title: Where:	Personal Finance 101 Budgeting Using Online Financial Tools King Family Library 408 High Street Sevierville, TN 37862
Wednesday, April 22, 2015 3:30 PM to 4:30 PM Sevier County	Topic: Title: Where:	Kids and Money Online Tools for Teen Budgeting King Family Library 408 High Street Sevierville, TN 37862

Money Smart Week®  
April 18-25, 2015  
<http://www.moneysmartweek.org>

Check with the local library in your area to learn if they may be offering similar programs during Money Smart Week and get your family prepared to become smarter about your money!



## Teach Children To Save

Teaching our children the importance of managing and saving money at a young age will help them to be more successful at handling their personal finances in adulthood. The American Bankers Association has organized banker volunteers to help teach children the value of money and the importance in managing and saving money for over 18 years, with a national program they call "Teach Children To Save". April 24th, 2015 is "Teach Children to Save Day" this year, however, the program is not just limited to that day or the month of April. Resources and educational tools are made available throughout the entire year. Don't hesitate! Start teaching your children the importance of handling money in a responsible way so that they are less likely to struggle down the road.



# Reverse Mortgages

Ever heard of Reverse Mortgages but are unsure of how they work? Are you in need of some additional income to help pay for unexpected healthcare expenses or have a future home improvement project in mind? Or, maybe you're just looking to supplement your retirement. If you meet the qualifications, a Reverse Mortgage could be a valuable retirement planning tool that can greatly increase a retiree's income by using their largest asset- their home.



## What Is A Reverse Mortgage?

A Reverse Mortgage is a special type of home loan that is available to homeowners 62 years of age or older that lets you convert a portion of the equity in your home into cash - meaning -the equity that you built up over the years of making mortgage payments can be loaned to you. The loan is called a Reverse Mortgage because the traditional mortgage payback is reversed.

Instead of making monthly payments to a lender, as with a traditional mortgage, the lender makes payments to the borrower.

You are also not required to pay back the loan until the home is sold or otherwise vacated. In other words, as long as you live in the home, you are not required to make any monthly payments towards the loan balance. However, you must remain current on the property taxes and homeowners insurance.

### How do you qualify?

You must be 62 years of age or older

Live in your home as primary residence (vacation homes or investment property do not qualify)

Own your home outright or have a low mortgage balance that can be paid off at closing with the proceeds from the reverse loan

Must be current on your property taxes, homeowners insurance, and any other mandatory obligations

To learn more about Reverse Mortgages and understand your options, you can contact the Federal Trade Commission at <https://www.ftc.gov>, U.S Department of Housing and Urban Development at [HUD.gov](http://HUD.gov), or [www.reversemortgage.org](http://www.reversemortgage.org)

### Some key features of a Reverse Mortgage include, but are not limited to:

- With a Reverse Mortgage you continue to own your house and cannot be forced to leave, as long as you keep up with the maintenance on the property and pay the property taxes and homeowner's insurance.
- The amount of funds that a person is eligible for depends on their age (or in case of couples the age of the younger spouse), the value of the home, the current interest rate and upfront costs. The older you are, the more proceeds you may receive.
- There are limits on the amount of funds you can access during the initial year, usually 60% percent of the sum.
- There are flexible options available for homeowners when deciding how to receive the loan proceeds such as: a lump sum, a line of credit, and fixed monthly payments (for a fixed amount of time or for as long as you remain in the home).
- Reverse Mortgage Loans are not taxable, generally don't affect your Social Security or Medicare benefits, and, many have no income restrictions.
- Reverse Mortgages are no different than traditional mortgages in that there are costs involved which may include costs such as: interest rate, loan origination, mortgage insurance, appraisal fee, title insurance fee and various other fees. Therefore, you should shop around.

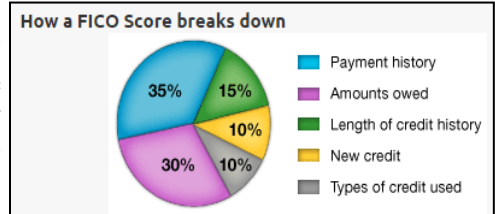
### Still Considering?

If you are considering a Reverse Mortgage, shop around. Compare your options and the terms various lenders offer. Contact a reverse mortgage professional at a lender who specializes in these loans to answer all your questions and to be sure you're getting not only a good deal, but the right deal!



# Savings Through Credit Scores

In previous editions of *Spotlight on Finance*, we have provided information on the importance of savings, but have you ever thought how your credit score can impact your opportunities to increase your savings? The most widely used credit score is FICO, which was developed and has been refined through the years by Fair Issac Corporation.



Your credit score is a number that summarizes your credit risk. Lenders will use a loan applicant's credit score to determine whether they will make a credit offer for the amount requested and your credit score can also affect the interest rate you may receive for the loan.

The FICO credit score is calculated by using several pieces of data contained in an individual's credit report. The data is grouped into five categories, with varying degrees of importance, while taking into consideration both positive and negative information in the credit report. FICO scores range from 300-850, with the higher score being an indicator of less risk for the lender.

The following tables demonstrate how the difference between a high credit score and one that is low due to an impaired credit history impacts the interest rate an applicant may receive, the payment amount for the loan and the long-term interest costs associated with the transaction.

**Loan Savings Calculator** Interest Rates as of 3/12/2015

step ONE Select the type of loan  
30-Year Fixed

step TWO Select the state you live in  
Tennessee

step THREE Enter the loan principal amount  
\$ 175000

A 30-year loan in which the interest rate does not change during the entire term of the loan.

FICO Score	APR	Monthly Payment	Total Interest Paid
760-850	3.521 %	\$788	\$108,637
700-759	3.745 %	\$810	\$116,584
680-699	3.925 %	\$828	\$123,054
660-679	4.141 %	\$850	\$130,915
640-659	4.577 %	\$895	\$147,101
620-639	5.129 %	\$953	\$168,182

step FOUR Select your current FICO Score range  
700-759

calculate

- If your score changes to 760-850, you could save an extra \$7,947
- If your score changes to 680-699, you could pay an extra \$6,470
- If your score changes to 660-679, you could pay an extra \$14,331
- If your score changes to 640-659, you could pay an extra \$30,516
- If your score changes to 620-639, you could pay an extra \$51,598

In the provided mortgage loan example, an individual with a credit score in the 760-850 range will save \$165 per month (\$788/month payment vs. \$953/month payment) in the monthly payment and \$59,545 in the long-term cost of the proposed loan (\$108,637 total interest paid vs. \$168,182 total interest paid) as opposed to another borrower, on the same size loan request, with a credit score in the range of 620-639. The interest rate ranges from a low of 3.521% to a high of 5.129%.

The same holds true on a new car loan. An applicant with a credit score in the 720-850 range will pay \$554/month, on a 48-month loan, as shown. Another borrower for the same vehicle and loan amount with a credit score in the range of 500-589 will pay \$720/month, for a difference of \$166. The long-term interest cost difference would end up with the low credit range borrower paying \$7962 more in interest over the life of the loan. Also, note the interest rate difference of 3.059% versus 16.884%.

**Loan Savings Calculator** Interest Rates as of 3/12/2015

step ONE Select the type of loan  
48-month new auto

step TWO Select the state you live in  
Tennessee

step THREE Enter the loan principal amount  
\$ 25000

A 48-month loan for a new automobile in which the interest rate does not change during the entire term of the loan.

FICO Score	APR	Monthly Payment	Total Interest Paid
720-850	3.059 %	\$554	\$1,592
690-719	4.369 %	\$569	\$2,293
660-689	6.234 %	\$590	\$3,311
620-659	9.724 %	\$631	\$5,276
590-619	14.895 %	\$694	\$8,333
500-589	16.884 %	\$720	\$9,554

step FOUR Select your current FICO Score range  
690-719

calculate

- If your score changes to 720-850, you could save an extra \$701
- If your score changes to 660-689, you could pay an extra \$1,017
- If your score changes to 620-659, you could pay an extra \$2,983
- If your score changes to 590-619, you could pay an extra \$6,040
- If your score changes to 500-589, you could pay an extra \$7,261

These examples show the importance of maintaining an excellent credit history and the resulting lower interest rates, reduced monthly payments and long-term interest cost savings. The interest rates in these examples are state-specific for Tennessee and were provided by [www.myfico.com](http://www.myfico.com). Applicable interest rates with a particular lender may not necessarily match those shown in the examples. Remember, you are entitled to one free credit report from each reporting agency each year. We suggest you obtain a copy from each company, however, stagger those requests so that you can maintain a more consistent watch on all credit information. Go to [www.annualcreditreport.com](http://www.annualcreditreport.com) to start your request today!