

Personal Financial Literacy Brown Bag Luncheon:
How is the Current Financial Crisis Impacting Me?
November 12, 2008

Leigh All right, I am Leigh Brady from the State Employees Credit Union. I head up the Education Services Department for the Credit Union. Most folks would call it marketing and training, but if you are a Credit Union member you know that we are very different at the State Employees Credit Union. Do I have any members in the audience? Well good. I am, like I said, heading up Education Services. Rex Spivey is our Senior VP of Management Reporting, and he is filling in today for our Chief Financial Officer who is sick. He's never sick and I don't know what's wrong. It's not that he didn't want to come see you today I can promise you that.

Rex is really going to cover the economic situation on the aggregate level; what we're dealing with; what it means for our economy; the bailout package, and where that's headed. Then I'm going to cover more on an individual basis because we are all tightening our belts, right? Christmas might not be as big in our families as it has been in past years. So, I'm going to kind of give you some hints of things we've used in past workshops that have been a lot of fun. We'll get you involved just a little bit in terms of the presentation and maybe some of the exercises there. I'm going to turn it over to Rex real quick for him to cover the big picture.

Rex Thanks Leigh I appreciate that. Thank you to everybody for coming here today. What I'm going to do is to touch briefly on the crisis at hand, and how things started off. I think initially there are some lessons to be learned by us as consumers and from our Government, and the regulators and such. What started off as, what's been termed, the mortgage crisis has turned into a financial crisis. Things started off several years ago when people were getting loans they should not have. Institutions were lending out this money, mortgage brokers were writing these loans. A lot of the information required for these loans was very little. So, to be honest, the mortgage brokers, banks, and financial institutions probably didn't know enough about the people who were borrowing the money as they should have. They also had some of these exotic loans. We don't find them as much here; you don't find them at the State Employees Credit Union, no doubt. But, out in California interest only loans was a big product.

While I was on vacation about two or three year ago, I met two sisters living in San Francisco. They had bought a condo together that cost \$750,000, and

they financed it with an interest only loan. I know one was a school teacher. I'm not certain what the occupation was of the other, but I just had to shake my head. Now, I wonder where they are. But, when these loans took place over the years they were variable rate loans, and the first resets were at very high interest rates. The first loan would be at 5 or 6 percent, and the reset would go up to 10 or 12 percent. So, it becomes very difficult for these people to make payments on the loan when it resets. We have seen that happen, and the bulk of that happened towards the middle of last year.

Part of the overall system was that of lending money, and that has evolved over the years. Institutions and mortgage brokers would make loans, group them together, package them and sell them to other investors. Investors purchased these investments in which the loans were the collateral. And so it's a ripple effect where people can make payments on the loans, and the loans go delinquent; the investments that are tied to these loans start to go bad, and that's what we're into now.

Audience I'm sorry, but they changed the rules. When I went to get my mortgage a few years ago I had to show proof of a job, I had to show W-2s, my tax information. All that went where? That's what bothers me.

Leigh Right. That's where the mortgage brokers, some of the banks were willing to take a little more risk and take less documentation, less information. You are right. Back in 1986 when my wife and I got our first mortgage we had to provide verification of employment, verification of deposits and so forth. And the last loan we received I went in to do the paperwork myself. The only thing they verified were our bank balances. That was about it.

During that time the mortgage brokers, the industry itself – the people that were buying the loans, Fannie Mae, Freddie Mac - was allowing this to happen. So, over the years, especially once these variable rates started soaring, we had that ripple effect to the investment companies that owned the investments. Now they have these investments that no one wants to buy because they are not certain if they're going to collect their money.

So all of that pooled into the credit crunch where a lot of organizations, the larger brokers and larger investment houses, couldn't get the money that they needed to actually continue. And that also trickles down.

Audience I just wanted to point out that the Federal Government was also in the business of promoting these loans. Alan Greenspan promoted adjustable rate mortgages for many years.

Rex That's right. Oftentimes adjustable rate mortgages started off at a low interest rate to help people out for a while. And if they are properly structured adjustable rates mortgages can be a very good product. That's something we can touch on now. The State Employees Credit Union offers such product that doesn't have such a large increase in interest rate when loans reset. Yes, you are right the government was involved with that. Fannie Mae and Freddie Mac, they are government agencies. So, they were not strictly apart of the federal government, not until recently. They were a separate entity authorized by the federal government to help promote home ownership. And they help to provide the ability to make these loans.

In retrospect now, these are loans that should not have been made or should not have been structured that way. And we are now finding ourselves in the current situation. Some of the credit freeze that we are experiencing happens at all levels. It happens at the higher institutions....I know that you've heard of the Wall Street firms that could not get credit and the government stepped in to help them. And that does trickle down. You have businesses that do not want to lend to other businesses. That can trickle down to small business and individuals. Those are some of the causes for the current situation that we're in.

The government had a bailout package that they passed within a couple of months. They said it's a \$700 billion package, but everyone expects it'll be much higher. Plus, there are other things they are doing to help the businesses and industries, so everyone thinks it'll be a lot larger than that number. You know, the purpose of the bailout is to help the situation. You know the approach that was taken to help industry which in turn would help businesses and individuals. Hopefully, that will be the case.

I know you just heard recently Fannie Mae and Freddie Mac have talked about helping individual homeowners with their mortgages – those that are finding it difficult and are delinquent in their loans. To help homeowners to restructure their loans to make them more affordable so they won't lose their house. But, it also helps out that person who can't get a loan. There was an announcement yesterday that Citigroup will be doing the same type of thing. I believe Citigroup is looking to help people before they actually get into that situation by looking into high risk areas. That probably means those areas

where home values have dropped quite a bit and where some of the economic situations are getting worse. Hopefully, some of those things will help.

Now, within North Carolina we have been fortunate, in general, that the downturn that we have seen hasn't been as great as it is elsewhere. You know, there are pockets, I know Leigh was talking about the Mountains where they have some home values actually declining. I know the coast, especially in the Wilmington area, has also experienced some decline. The value of homes has gone down quite a bit there, and it's difficult to sell. Naturally, it's difficult to sell homes anywhere in the State now.

They talk about the large availability of inventory that's out there which doesn't help the value either. The Triangle area has been pretty fortunate, but, we are seeing some of that trickle down effect also. Within the past couple of weeks we've seen some stories about layoffs within this area. Whether they are larger layoffs or some businesses that have a few employees it does have an impact.

That also has another ripple effect which affects state government in that revenue that the State receives is decreasing. There have been some projections of the budget deficit. I know I've seen recently that the Governor has asked some departments to hold back or trim their budget by 2-5% so that the state can weather this storm.

Audience How does North Carolina compare to other states?

Rex I think we're in pretty good shape. We just recently, in the last two weeks, had our examiners in looking at our financial records - that's both state and national examiners. The national examiners are more familiar with other states. They mentioned that California and Florida are two areas that have been hit the hardest with these types of things. So, I think overall, North Carolina is probably doing better. Some comments I've seen about the budget cuts, the 2-5% the departments have been asked to hold back on, is that it's a proactive move; to go ahead and know that the revenue that's coming in will be less.

Some of the blame nationally goes to not being proactive enough. They have been reacting to the different situations that keep coming up.

And with that in mind, I think most people raised their hands when Leigh asked who were members of the Credit Union, but if not, I would encourage

you to go down to your local branch. And as I always tell people put in your \$25, put in your share into an account. It'll always be there, and if you ever need our services we'll always be there. The State Employees Credit Union is financially strong. The loans that we make serve our membership and us well. I mentioned our adjustable rate – the biggest product that we offer is a two year adjustable rate. That means that every two years the adjustable rate can adjust. When it does adjust it can only go up or down 1%. Most of the adjustable rates that Fannie and Freddie use to offer were 1 year adjustable, so they would adjust every year and they could go up two percent a year. So, you can see that the payment shock for our product isn't nearly as great. That's one of the benefits of the products that we have to offer. We haven't made sub-prime loans – those loans to people who truly could not afford them; we haven't made those.

We invest primarily in US Treasuries. Our investment portfolio has two major types of investments; probably two-thirds of our investments are US Treasuries. That's about as safe as you can get. The other third we invest in is student loan bonds for the state of North Carolina. That's to help out those agencies, and also the citizens, of North Carolina. So, overall, the State Employees Credit Union is in very good shape. We have weathered the storm well, we are conservative, and we'll continue to be that way. Thanks for your attention.

Leigh All right. So let's talk about you personally here. We've got this gloom and doom picture – sorry Rex. So, he's Mr. Doom and Gloom and I've got to be the bright spot here. How many folks think the State's going to give you a raise next year? We have one! We'd love to think that they're going to come up with something that'll be able to help state employees but, the harsh reality is they might not be able to do anything. And we know, as Rex explained, the trickling down effect. The revenues are not coming into the State of North Carolina so something is going to have to give. Ok, so if we don't give a raise and the cost of living is going what?

Audience Going up.

Leigh Going up. Although, gas has come down a bit. I never thought I'd be thankful to see gas at \$1.95 today... yes, yes this is great.

Audience You have more money to spend on Christmas bargains.

Leigh Right, you never know, you never know. All right. Is anybody in the group scaling back for Christmas now? We are, and I always joke about my family

- poor Esther has already heard this. I have a little 10 year old, Ennie - I have three kids - she's my middle child. My husband actually just recently quit his job and opened up a CPA firm with another colleague. Is it the best time in the world to be doing this? I don't know about that. So, ask me in a few months and I'll let you know how it's going. But, we sat down our kids and said, "You know, this Christmas is probably not going to be as big as last Christmas because of the cost of things going up....and they are familiar; kids are pretty familiar with what's going on out there. Costs are going up. And the fact is that mom and dad are not going to be bringing in as much income anymore. So, we're going to have make some cuts.

You might get one decent thing for Christmas and the rest are going to have to be little small gifts. So, she and my youngest son go to spend a couple of days with my parents. They are in the car, the back seat. Enni said, "Granny and Papi guess what?" Granny said, "What?" Enni said, "My daddy quit his job and we're going to be a little bit poor. So, you are probably not going to get a whole lot for Christmas this year." So, there's no telling what Enni has told folks. But, you know it kind of put a harsh reality on what we need to explain as individuals. Things are different for us in an economy like this now. So what can we do? It's explaining to our family members, it's explaining to our spouse or our significant other that things are not the way they were before, and we can't get everything that we want.

So, we go back to wants and needs. Everybody's heard of wants and needs before. I always joke that – and I hope you don't have to cut this out of the tape or anything – wants and needs are covered from diapers to depends. Really, it happens that way. It's all of our lives that encompass wants and needs.

What I want you to do real quick - and I want to get everybody involved - is to give me five financial goals that you are going to have, ok? By financial goal, I mean anything that involves money. So, what are five things that you have to do. It doesn't have to be within the next thirty days, or it could be. We are just looking to leave it wide open because goals really fall into three categories: short term, things that are going to be accomplished within a year; mid-term, things that are going to be accomplished between 1-3 years; long-term, things to be accomplished in 3-5 years. So, you all just give me five. Just shout them out.

Audience College tuition. 529 Plan. Retirement.

Leigh How fortunate do you feel right now as a state employee to have a pension

plan? State Employees Credit Union – you think we have that? We do not have state benefits at the Credit Union. So, what do we have, Rex?

Rex We have a 401K.

Leigh A 401K, which Leigh was really aggressive in investing. Leigh probably has about a 201K right now. So, my retirement is kind of looking like I'm going to be working a little bit longer than I really wanted to work. What's another goal we have?

Audience Home Improvement.

Leigh Home improvement, ok that's good.

Audience We can't afford to move anymore.

Leigh That's a good point and you see more and more these days that people are trying to work with what they have. That gives us a more realistic view of ...it's upgraded and new to me.

Audience Starting a business.

Leigh Starting a business...call me and I'll let you know how my husband's business works out. We're keeping our fingers crossed. Give me a fifth one.

Audience Credit Cards.

Leigh Paying off credit cards. Ok, good point of paying off credit cards. Back when I was growing up we had Roses Department Store in Wilson. Anybody heard of Roses? Yes, and when we went to Roses in the fall we typically saw these folks in line with toys. They were standing at a counter. What do you think that counter was?

Audience Layaway.

Leigh A layaway counter. I would always ask why they are taking the toys. They were not giving the toys away. My mom explained to me about layaway, and how that worked was that you pay for that over time, and then you would get the toy. How ideal was that? When that went away what took its place?

Audience Credit cards.

Leigh But, what is starting to make a come back?

Audience Layaway.

Leigh Layaway. How wonderful is that? Have you ever heard of what goes around comes around? This economy is forcing us to go back to saving, ok? Laying things away; paying for things over time with your money that you earn instead of the instant gratification stuff. Does my ten year old have the instant gratificationitis? Oh yeah, she does big time. But, this is a wonderful lesson, wonderful lesson. So, if we're narrowing this down let's see what's important to us. Between college and retirement what's more important?

Audience Retirement.

Leigh Why do you say that?

Audience There might be scholarships; you know, so many other opportunities to pay for college.

Leigh Got it. There are loans for college, right? Are there loans for retirement?

Audience No.

Leigh Exactly. Between college and home improvement?

Audience Home improvement.

Leigh All right, home improvement. You do have to keep that asset up. It just depends on how much we're improving. If we're putting in that new Jacuzzi I might have to differ with you. Ok, so between college and owning our own business?

Audience Owning a business.

Leigh Ah. It's really going to depend, right? Lets say college at this point. Owning our own business or paying off our credit cards?

Audience Paying off credit cards.

Leigh All right, so that business is out of there, it's gone. Retirement and home improvement?

Audience Retirement.

Leigh Retirement. Home improvement or paying for college again?

Audience Home improvement.

Audience If the college is for your children I would say home improvement, but if the college is for me, in my case, I would say college.

Leigh Lets say college is for kids.

Audience Home improvement.

Leigh Ok, lets do home improvement. All right, college or paying off our credit cards?

Audience Paying off credit cards.

Leigh Student loans, federal grants, you know that lovely FAFSA form? CFNC of North Carolina - wonderful, wonderful tool. Ok, retirement or home improvement?

Audience Retirement.

Leigh Home improvement or paying off credit cards?

Audience Credit cards.

Leigh Here's a tough one. Retirement or paying off our credit cards?

Audience Credit cards.

Leigh All right. Short-term, long-term exactly. You can see how it's going to make a difference. And the first thing I would suggest you do in getting your finances in order is to do something like this. Figure out what you really really want to do. Now, the next thing you're going to need to do is figure out what you've got to work with. And that's why I've given you the money management planner. That booklet that you are going to see in there. Let me grab one of these. Within this money management planner are listed financial goals, net worth. Net worth is what? The difference between what you own and what you owe. And you hope that over time your net worth does what?

Increases. What can make it increase? Paying off credit cards can do it. What else? If our home is appreciating. And depending on where you live your assets might not be appreciating as much now. But, in this area, general area of the Triangle, we're doing fine. What else?

Audience Also, a decrease in your assets and investment.

Leigh What can make it decrease? Hint. I just talked about that? Well, credit cards could.

Audience Making bad investments.

Leigh Making bad investments. What did I choose in that 401K that's a 201K right now? You think my net worth went up? No. All right, driving a brand new car. Drove it right off the lot.

Audience Is it GM?

Leigh Is it GM? I hope not cause that warranty probably is not going to be good after a while, is it? All right, it's going to depreciate after I drive it off the lot. If I owe money on it, in a lot of places, chances are you're going to owe more than the car is worth. And you're flipped in that situation causing your net worth to go down. So you can see how things can make a difference. I recommend that you determine what your net worth is. Then, look at your essential expenses – that's important. Again, we're going back to the wants and the needs – our essential expenses. And on the very back of the booklet we give you, kind of in your budget, guidelines of where things are going to fall. The majority of your expense every month is where?

Audience Housing.

Leigh Housing. It doesn't matter whether you're renting or owning. It is the majority of the expense there. What's the second highest that you see?

Audience Other.

Leigh Ah ha. What do you think other is? Entertainment. It could be that. What else?

Audience Going out for lunch everyday.

Leigh Going out for lunch everyday; could be medical costs. Let me tell you that a lot of things you're not going to be able to change. Housing, you're probably not going to be able to change that cost. Your debt – you're probably really not going to be able to change to much.

Audience You could increase it.

Leigh You could increase. But, that wouldn't be good for this little chart would it? All right, transportation. You could fix that by riding the bus or carpooling. And we will do whatever we have to do these days. But, there's not going to be a lot of leeway in that unless you make major life style changes there. And savings, the one thing I don't want you to give up is always pay yourself first. When I say saving, of course you're in the retirement plan in the State of North Carolina. But, a supplemental 401K plan, or savings – emergency savings. Everybody needs some emergency savings. It's the oops fund. That's what we call it at our house. Oops, we got back from vacation and our air conditioner went out. Perfect timing, but if we didn't have it in savings we'd be doing what?

Audience Borrowing. Using credit cards.

Leigh Borrowing. And that would make our net worth do what?

Audience Go down.

Leigh Go down. Man, you are all smart today. I can tell everybody's in Public Instruction because you are really bright. Everybody knows where the Cashpoints ATM machine is? I go up to the ATM machine and put in my ID - fast cash. How much comes out?

Audience Forty dollars.

Leigh Forty dollars. All right, two days later how much do I have? Zero. Where did it go? My kids....I don't know. I don't know. That's why I've given you another sheet – the fritter finder. And you can make as many copies of that as you want to make. Keep up with where you're spending your money. That's going to tell you how you're going to be able to make your lifestyle changes in that other section of this chart here. Are you eating out too much for lunch? Could be. If you told me that I could never go out to eat again, just shoot me. That is one thing I told my husband with this business. I said, "Oh my gosh, we're going to have to eat in more. I'm going to have to cook – oh no." Well, we're remedying that.

When my parents asks us what we want for Christmas – restaurant gift cards. That’s what we want. That’s how we’re going to do our budget. Ask for things like that. Figure out ways to make it happen. Anybody ever heard of Craigslist? Anybody have things around the house they want to sell? Do it. Get a little extra cash and put that towards meeting a financial goal which might happen to be paying off credit cards or reaching financial goals that you want. Now when you are talking about family members, your kids - financial goals for your kid are what? Let’s say a ten year old.

Audience Going to the movies.

Leigh Yeah. Those financial goals are a lot simpler than an adult’s financial goal. So, figure out how to work with kids and family members in getting them involved and letting them know how they can reach their financial goals.

Put it back on the kids. My kids know that if they want something they’ve got to get rid of something. And that might mean mom or dad helping them sell something on Craigslist to get \$10 so that they can go get something else with it. That might be what it takes. Figure out anyway and everyway to get things done. Now, the other option that we have is decreasing our expenses, or we could increase what?

Audience Income.

Leigh Our income, ok. That usually involves another job. Probably, last resort that you want to do because everybody wants to spend time with their families. That’s extremely important. Or, maybe figuring out a way of doing some things at home on the side as well. There are different opportunities that might become available. These are just quick tips of ways that maybe you’re going to be able to enhance your financial life and make it through this crisis.

I will tell you the harsh reality is that we don’t perceive things getting any better and start to pick up until the end of 2009. One thing I can tell you right now is we’ve seen delinquencies pick up a bit at the credit union. We haven’t seen foreclosures because we haven’t put people into homes they couldn’t afford. But, that doesn’t mean that all of our members have not gotten into some sub-prime situations somewhere else. Let say a neighbor of yours....you’re in a nice neighborhood, and the neighbor got into a sub-prime situation and is no longer able to make the payment. They turn in the keys to the lender. What happens?

Audience House value decreases.

Leigh Exactly. So, don't think that we are not susceptible to that happening in North Carolina because we are. And that's why we have all got to be very proactive in what we're dealing with in our own pocket books, and how we're going to make things happen for ourselves. We can no longer depend on the 5 to 6 percent appreciation every year in our properties. We don't know. Right now we're ok, but we don't know that that's going to last for us. So, you have to be aware of what be coming down the pipeline.

Healthcare. There might be some changes in healthcare, as well. You don't know what's going to happen. I can tell you that in the numerous workshops that I've done the number one thing that has bankrupted folks is medical. And so, you always have to be prepared for that. That's why I said the emergency fund or oops fund; deductibles change over time you need to be able to deal with those things. You don't know what's coming.

Now, savings – 10% saving. This will be the last thing before questions. Anybody have a holiday cash fund in here or a Christmas fund account? No. All right, everybody's going to have jolly Christmas, right? Let me tell you, several years ago.....you know with three kids Christmas starts to add up after a while. And as they get a little bit older there presents tend to get a little more expensive. So, it was ok when you could go and shop all year at Toys R Us or the Walmart on the discount rack. The kid didn't know the difference. And if you have kids that age, take advantage of that time. But, I noticed that as our kids started to get older it was getting a little more difficult, and the one thing that I found myself having to do was put things on a credit card. I did not want to do that. So, in the holiday cash club I put \$100 every month into the Holiday Cash Club. And so, I have \$1,200 for Christmas. So, we put nothing on a credit card now. And we just suck it up a little during the year so we can put that \$100 in every single month. It makes a tremendous difference.

You probably have seen over time, if you've been doing any savings, that little bit grows into a lot over time. So, if you haven't started anything I would encourage you to start now. If your kids, family members haven't started have them start now. It doesn't matter how young they are it's never too young to start. It's the power of compounding, and it can make it tremendous difference.

