Financial Literacy Questions

answered by

BMO
About BMO Harris

As the 8th largest bank in North America by assets, we provide personal and commercial banking, wealth management, and investment services to more than 12 million customers.

We’re proud to be fueling progress for individuals, families, and businesses across North America.

We’re focused on building, investing, and transforming how we work to deliver on our Purpose to boldly grow the good in business and in life.

Each and every day, we are helping customers and businesses make real financial progress, investing in the growth of our workforce, and building community partnerships to create economic opportunity within the neighborhoods we serve. Together, we are leading efforts to a thriving economy, a more sustainable future, and an inclusive society without barriers.
What is mobile banking?

- Mobile banking allows you to bank anytime using a personal device such as your smartphone or tablet.
- You can access, view, and perform a variety of transactions with your bank, anytime and anywhere.

When should you go to a bank?

- You can visit any of our branches anytime! We are here to help with all your financial needs, whether it is personal or business banking. You can take care of cash transactions, make deposits or withdrawals, open new accounts, speak with someone about lending, financial advice, or if you have any issues or concerns.
- We always recommend that you book an appointment with your bank every few months to review your accounts or to discuss and plan for any major life events.
- If you need to make account changes, report fraudulent charges or theft.

Why use mobile banking?

- Security and convenience are key for mobile banking. This is not a way to push our clients away, but to provide better and faster ways to bank with us that will save you time and money.
- Everyone is on the go. With mobile banking, you can manage your finances at your own pace.

What are common features of mobile banking?

- You can check your balance, load past statement history, deposit checks, transfer money between bank accounts, pay bills, and send money to family or friends with Zelle. You can also take care of basic services like ordering checks, or cancelling payments on checks, or set up notification alerts. Mobile banking makes it easy to do your banking anywhere and anytime.

What are some benefits of depositing your checks using mobile banking?

- One benefit of depositing your check through mobile banking is convenience. You don't have to leave home or work, and it only takes a few minutes! Simply follow the prompts to submit your signed check and you’re done!

What are mobile wallets?

- It’s a mobile wallet that stores payment card information on your mobile device to easily pay for goods and services.
- Anything that you currently have in your physical wallet can now be stored in your smartphone! From event tickets, gift cards, point cards, and memberships, you can store it all.

What is a credit union?

- Credit Unions operate their business differently than banks but provide you with the same products as a bank such as checking, savings, loans and certificates of deposit (CDs). Credit Unions are owned by the members and are non-profit.
What is a non-banking financial institution (NBFIs)?

- A non-banking financial institution (NBFIs) is a financial institution that does not have a full banking license or is not supervised by a national regulatory agency (e.g., pawn shops, check cashing locations, payday lenders, currency exchanges).
- Typically, NBFIs are lending companies that don’t take traditional deposits. Examples are investment banks and commercial lending companies.

Why are financial statements important?

- Financial statements recap your accounts for a period of time. Typically, they show interest earned, transactions, and beginning/ending balances, which can be useful for comparing spending habits and empowering individuals to make better financial decisions to meet their short and long-term goals.
- Statements also allow you to monitor charges on your account and to flag any discrepancies with your bank and/or vendor.

What are the different types of financial statements?

- Different types of Financial Statements include balance sheets, income statements, and cash flow statements.

What does FDIC insure?

- It insures the dollars you have on deposit in your checking and/or savings accounts up to $250,000.
- It's insurance on deposited funds that are currently held in a bank in the event of a bank failure.

What FDIC insured accounts and products are covered?

- Cashier's checks, money orders, and other official items issued by a bank, checking accounts, Money Market Deposit Accounts (MMDAs), Negotiable Order of Withdrawal (NOW) accounts, Savings accounts, Time deposits such as certificates of deposit (CDs).

What accounts and products are not insured?

- FDIC won’t insure stocks, bonds, government and municipal securities, mutual funds, or other investment products.
- Anything that is over $250,000.

For more consumer information, visit FDIC.gov
What is a checking account?

- A checking account is a type of bank account that allows you to easily deposit and withdraw money for daily transactions. This may include depositing a check you receive, taking out cash with your debit card or setting up direct deposit for your paychecks.

What is a savings account?

- A savings account is a deposit account at a bank that earns interest. You can save for a rainy day, vacation, college, or any goals that you have in mind.
- A savings account is designed for excess cash not needed for daily/monthly expenses that earns interest.
- A savings account is a bank account with a limited number of transactions per month and has a higher interest rate that helps you earn more money on what you have saved!

What is a money market account?

- A money market account is essentially a hybrid of a checking and savings account. You can write a limited number of checks each month and sometimes make debit purchases.
- Your money will earn higher interest in a money market account than it will in a checking or savings account. Keep in mind that this type of account may come with monthly minimum balance requirements and maintenance fees.

What is Annual Percentage Yield (APY)?

- The annual percentage yield is the effective rate of return on an investment for one year considering the effect of compounding interest.
- Annual Percentage Yield is the interest earned on a savings account or money market, for example.
What is Collateral or Guarantee?

- Collateral or Guarantee is something pledged as security for repayment of a loan and may be forfeited in the event of default.
- For example, your house is collateral for a mortgage. If you cannot pay the mortgage, the house will be forfeited. A Guarantee is also used to secure a loan.

What is a custodial account?

- A custodial account is a savings account that a legal guardian or custodian manages for a minor, or a person with a disability, depending on the state. Any financial decisions made about the account, such as the buying or selling of assets, must be approved by the custodian.

What does NCUA insure?

- They oversee regulating, insuring, and supervising Federal Credit Unions, they insure funds that are deposited at a credit union in the event of failure.
- The NCUA insures depository accounts held at credit unions.
- NCUA insures up to $250,000 per person, per institution, per ownership category.

What does NCUA stand for?

- National Credit Union Association.
What is debt?

- Debt is when you owe money; however, some debt is better than other debt. Debt that has a low, fixed interest rate and is for something such as buying a house can be a good way to use debt. Debt on credit cards usually comes with a much higher interest rate and should be avoided or used in limited scenarios whenever possible.
- Debt is money borrowed to make purchases you can not afford at the time and plan to pay back at a later date when you do have the actual money.
- People or companies that you owe or have to make payments to; this might include credit cards or student loans, car loans, store loans, or mortgage payments.

What is Debt-to-Income (DTI)?

- Debt-to-Income (DTI) is the percentage of your gross monthly income that is spent on your monthly expenses such as mortgage, auto loan, student loan, taxes and insurance, rent & credit card payments.
- The DTI ratio is typically leveraged by lenders or landlords to financially qualify candidates to take on a new payment. There are debt-to-income ratio limits based on the type of solution and the company’s risk tolerance for that solution.

What is interest?

- Interest (typically a percentage) is money you owe on top of what you borrowed. This would accumulate if the amount borrowed (debt) is not paid off prior to 30 days.
- Interest is the additional amount of money that you must pay when you don’t pay the original amount in full that you borrowed within a fixed period (generally the first month), and it can really add up quickly.
- It’s a fee for borrowing the money.
What is the difference between a variable rate and a fixed rate?

- A **variable rate** changes based on the underlying index or benchmark balance. It is common with credit cards and lines of credit where the credit is open-ended – meaning you can borrow and payback and borrow again and payback.
- A **fixed rate** is set at the time you have borrowed money. Rate and payment do not change for the term of the loan such as car loans or mortgages.

What are credit reports?

- Credit reports list your current outstanding debt and your payment history. "Paying as agreed" means you are following the terms of your credit agreement and paying the amounts due on-time. "Slow pay" means you are paying but, not always on time. Slow pay will hurt your credit score. Delinquencies, charge-offs (when you don't pay and it goes to collections), and any other negative activity, such as a bankruptcy, is also captured.
- Credit Reports give the details of your credit score. It includes each account that you had in the past up to a certain amount of time, the current accounts you have, and your payment history for them.
- Credit reports contain a person’s credit history with their Date of Birth, Social Security number, the history of where they have lived and the various creditors they have borrowed from over the years with the payment histories, including how much was borrowed and how quickly funds were repaid. This includes late payments and penalties as well.

What are the 3 nationwide credit reporting bureaus?

- Experian, Equifax, and TransUnion.

What is a credit score?

- It is a 3-digit number that represents your credit risk. The range is between 300 – 850. The higher your score, the higher the likelihood you will get additional credit and better interest rates. A higher score is achieved when you borrow on credit and pay it back on schedule or even better before it is due. If you can pay above the monthly payments (even just a little), it will improve your credit score.

Can you describe the different levels of credit scores?

- **800 and higher, exceptional.** It allows you to get approved in all circumstances when your debt ratio and collateral fit. Higher lending limits available.
- **700 and above, very good.** Caution, one late payment could reduce your score.
- **600 and above, fair.** You have riskier credit. Potential to not have enough, need a co-signer, will need collateral to get a loan.
- **Below 600, poor.** High rates with higher risks of default.
Who has access to your credit score?

- Nearly every company you do business with has the potential to access your credit score. Your credit score not only affects your ability to borrow money for a home, a car, a personal loan, or to get a credit card, but it can affect how much you pay for car insurance and other non-debt services like this.
- Your Credit Score can only be accessed with your permission, and you can (and should) check your score and information for free by visiting the credit bureaus online (Equifax/Experian or Trans Union) once each year. Lenders must have your permission to pull your score when you are looking for credit, applying for a loan, mortgage new Credit Card. While consumers should be cautious about allowing access to this information, occasionally pulling credit, or even having a few lenders check credit when shopping for the same item should not have any long-term negative impacts on scores.

What are 4 steps to repairing your credit?

1. **Determine your credit score.** You are entitled to a free credit report each year. This will give you a starting point.

2. **Review your credit score and report any errors you notice.** This must be done in writing to the credit bureau, and you'll need to contact the creditor that made the error.

3. **Fix what went wrong.** If you are always late on payments, consider setting up auto-pays. If you have too much debt, then stop buying anything non-essential. Continue to make sure you are paying your bills on time and pay off outstanding balances/unpaid loans whenever possible.

4. **Ask for help!** There are several non-profit debt counselors (do NOT pay for help!) who can guide you. There are also free apps such as Nerd Wallet and Credit Karma which are designed to manage debt and provide tips. They will also monitor your credit activity and alert you to issues.

What is the Credit Repair Organizations Act?

- The Credit Repair Organizations Act (CROA) is a piece of consumer protection legislation that regulates the behavior of companies offering credit repair services. These companies charge customers a fee to help them improve their credit scores. Seek out the assistance of non-profit and free services prior to ever paying for help. Remember the goal is to get out of debt, not create more of it by being charged fees.

- The Credit Repair Organizations Act (CROA) was created in September of 1996 to protect the public from unfair or deceptive advertising and business practices by credit repair organizations.

What are some red flags to spot credit repair scams?

- They use high pressure sales tactics including phone calls and multiple emails.

- They will warn you not to contact a non-profit or the credit bureaus.

- They ask for payment up front, the offer sounds too good to be true, they promise overnight results, they won’t let you cancel, they don’t tell you your legal rights, they offer a new identity.
Where can you obtain a Free Annual Credit Report?

- You are entitled to a free annual credit report from each of the three credit reporting agencies. These agencies include Equifax, Experian, and TransUnion. You can access this at AnnualCreditReport.com.

  Call 711 and ask the relay operator for 1-800-821-7232

Complete the Annual Credit Report Request Form and mail it to:

Annual Credit Report Request Service
P.O. Box #105281
Atlanta, GA 30348-5281

How do you find your business credit score?

- There are select free business credit score resources available, but you may not get the full picture compared to a service that requires you to pay.

- Several business credit reporting agencies track business credit scores. Three of the major ones are Dun & Bradstreet, Equifax Business, and Experian Business.

What are the two types of credit scores that helps lenders determine your credit risk?

- FICO and VantageScore.

- There are actually dozens of them, but the FICO score is one used by many banks. Some banks create a blend with the FICO score and their own data, such as average balances, overdrafts, as well as credit line usage and payment habits.

What is a FICO score based on?

- FICO is based on your payment history, the amount of debt you owe, the length of your credit history, new credit accounts, and the type of credit used (e.g., mortgage, car loans, credit cards, store financing).

- A FICO Score is a three-digit number based on the information in your credit reports. It helps lenders determine how likely you are to repay a loan. This, in turn, affects how much you can borrow, how many months you must repay, and the interest rate.

How are business and personal credit scores different?

- Your personal credit score measures your creditworthiness; your personal ability to pay back a debt. On the other hand, a business credit score measures the ability of your business to meet its own financial obligations.

- Business credit scores depend on the activity of the business rather than the individual.

- Your personal credit score indicates to lenders how likely you are to pay your bills on time. A good personal credit score helps you qualify for financial products such as personal credit cards, car loans, and student loans. In comparison, business credit is directly tied to your business's financial history.

What is in a Business Credit Report?

- A business credit report shows your business' credit history. Just like a personal credit report, information found on a business credit report will be used by lenders to determine if credit should be extended.

- Business credit scores are determined using the following factors: payment history, age of credit history, debt and debt usage, industry risk and company size. Personal credit scores are determined using different factors: payment history, amount of debt, new credit, credit mix, and average length of credit history.

How are business and personal credit scores similar?

- Similar to personal credit scores, business credit scores play a part in how lenders judge your business's eligibility for credit products, such as loans and credit cards.
How can you build good credit?

- **Pay your bills on time.** Even if it's just the minimum amount due on the last possible due date.
- **Don't borrow too much, especially unsecured debt such as credit cards.** Having several credit cards with very little owed on them isn't bad. But maxing out your credit cards – borrowing nearly up to your limits, will negatively affect your credit score.
- **Manage your purchases wisely.** Only use credit if you are certain you can and will pay it back. Understand how much interest will affect the end amount you will pay. Pay on time and over the minimum amount whenever possible. Pay off debt early whenever possible.
- **Limit your accounts.** Numerous credit card accounts may lower your credit score even if accounts are not used and balances are paid in full. Don't close old accounts and make sure to utilize your accounts while maintaining a low balance-to-limit ratio.
- **Manage your books.** Keep personal and business finances separate, make tax payments on time and hire a professional bookkeeper. Maintain good records.

What is credit?

- Credit is money borrowed for purchases or services which is expected to be paid back in full.
What are the 5 Cs of credit?

- **Character, capacity, capital, collateral, and conditions.** These concepts help a lender assess the risk and your ability to repay a loan. Character is most important. You can have lots of collateral, cash flow and ability to repay a loan, but if you decided you didn’t want to repay it, then a challenge arises. Also, you might want to pay the loan, but you’ve come across tough times and no longer have the cash flow or collateral value you had when the loan was originated. Good character and the willingness to work with the banker in this case will help all involved.
  1. **Character** – if you pay your bills on time.
  2. **Capacity** – determines your debt-to-income ratio, less then 45% is considered good.
  3. **Capital** – the amount of money or assets an individual has.
  4. **Collateral** – the security or asset that can be used to secure a loan; such as a car, which can be used as collateral for a personal loan.
  5. **Conditions** – the loan terms, purpose of the loan and what it will be used for.

What is APR?

- APR is the Annual Percentage Rate. This is the percentage of what the debt will cost you, on an annual basis. An APR includes the Interest Rate but also includes other fees you are responsible for, such as an Underwriting fee. In some instances, the interest rate and the APR may be the same, because there are no other fees being charged. If the APR is higher than the interest rate, there are other fees that you are responsible for paying as part of borrowing that money.
  - Annual Percentage Rate: The interest charged for borrowing money. It represents the actual yearly cost of the loan expressed as a percentage.

What type of fees are associated with credit cards?

- Possible fees include annual fee, interest charges, late payment fee, foreign transaction fee, balance transfer fee, cash advance fee, over-the-limit fee, and returned payment fee.

What are credit card limits and how are they determined?

- A credit card limit is the amount of money you can borrow on credit. They are determined by your credit score and credit report. Your DTI (debt-to-income) is also considered. The creditor wants to know you can afford to pay them back based on how much money you make.
  - How much the lender is willing to lend you. It is based on your credit score, your income and ability to pay.
What are some good strategies for debt management?

- Before borrowing money, determine if the urge to borrow is a need or a want. A car is a need for many people so they can get to school and work, but very few people need an expensive car. Determining the difference between a good car and an unnecessarily expensive car can save you thousands of dollars.
- Avoid borrowing money for wants, such as paying for your dinner with a credit card if you won't be able to pay it off on time and before interest accrues. Every dollar not spent on interest is a dollar that can be put towards your savings or spent on needs.
- Pay off debt monthly to avoid high interest rates on the money you owe.
- Use a debt calculator before making any major purchase on credit to show you how much you will owe at the end and how long it will take you to pay it off.

What are some examples of what you shouldn’t do when it comes to managing your debt?

- Avoid impulse buys. Do not get sold into high pressure sales with the promise you can easily finance the purchase. Do your own math first! Avoid store credit cards which normally have a very high interest rate.
- Not all debt is bad debt. Having some debt allows you to build a credit score, which will save you money in the future through lower interest rates. Just use your debt responsibly. Do everything possible to avoid making a late payment, even if it’s just the minimum payment on the last possible due date. Late payments usually come with hefty late charges, will lower your credit score, and cost you more money in the future.
When your debt is sent to collections, how long does it stay on your credit report?

- Typically, 7 years. If you pay off your debt, you can ask if they will remove it from your credit report. It’s up to them, but you must ask!
- Some collections stay on your report for a very long time while others don’t. For example, bankruptcies and foreclosures are handled differently depending on the state. Medical collections are considered differently than other collections. You can also report an error to the Credit Bureau, to have it removed from your credit report.

What should you do when your debt goes to collections?

- You should always try to communicate with your lenders and try to make payments whenever possible to decrease the damage to your credit report. Even if you can only make small payments, most banks and lenders will see this as an act of good faith.
- Contact the original creditor or the debt collection agency and see if you can negotiate the repayment. Often, they are willing to settle for a lesser amount as a lump-sum or even create a plan to repay your debt over time.
- Inquire with your credit card company or lender if they have a Financial Assistance Program. This is best done before the creditor sends your debt to a collection's agency. If your debt is already in collections, contact the National Foundation for Credit Counseling (NFCC) and ask to work with a non-profit credit counselor. They will guide you.

Have questions or need more help?

Connect with your local United Way at: unitedway.org/find-your-united-way
What 4 factors should you consider when planning for retirement?

- First, save as much as your company matches in your 401k.
- Consider contributing to an IRA. Understand the differences between a traditional IRA or Roth IRA and which one makes the most sense for your situation. With a Roth IRA, you contribute funds on which you’ve already paid income taxes, commonly referred to as post-tax income. With a traditional IRA, you contribute money that has not yet been taxed, so-called pre-tax income, which can lower your taxable income level today.
- Be aggressive when you’re younger and diversify your portfolio into mostly equities, but different types. Consider index funds (or ETF’s) as they are low cost.
- You should consider how much your monthly living expenses and budget for key items – transportation, insurance, rent, mortgage, taxes, food & groceries, utility bills, healthcare, etc. When calculating your budget, add 3% for inflation each year.
- Allocate a portion of your income towards savings and retirement. Choose a dollar amount that suits your budget that you can put away without needing it.

What are 3 different investment options?

- **#1**: 401k – run through your employer.
- **#2**: IRA – you can manage on your own through a broker or online brokerage.
- **#3**: SEP (self-employed).

What is compound interest?

- Compound interest is when you receive interest on both the money you saved and on the interest you earn.
- Simply put, compound interest is when you receive interest on interest. For example, when you have a savings account or certificate of deposit (CD), interest is paid to you on a monthly or quarterly basis. The interest you have gained will also earn interest and that is why it’s called compound interest. It is an important concept in savings since your money will grow much faster.

What types of risks are there when investing?

- **Market risk** – risk of decline in value because of economic developments.
- **Liquidity risk** – risk of selling your investment at a fair price.
- **Inflation risk** – risk that your investment does not keep up with the cost of living.
- **Longevity risk** – risk of outliving your savings.
- **Horizon risk** – risk of unforeseen events such as the loss of your job.
- **Reinvestment risk** – the risk of reinvesting at a lower rate.
- **Credit risk** – risk of financial difficulties of the government or company to pay interest or repay your principle.
- **Concentration risk** – the risk of no diversity in your investments, putting all your eggs in one basket.
What is the difference between gross income and net income?

- Gross income is the income before taxes. Net income is the amount one has left after federal and state taxes have been deducted.
- Gross income is the amount of salary paid. Net income is the amount of money, after taxes and other deductions, that you take home.

How can budgeting help you?

- So many people live beyond their means. It is critical to your financial health to have a weekly or monthly budget that includes saving money for rainy days. You must be disciplined and stick to your budget in good times so you can handle the bad times. Very simple and very important, but very under-utilized by so many people.
- Budgeting is important because it allows you to understand how you are spending your income on a weekly and monthly basis and you can compare it to your financial plan. It will help you understand what areas or categories you are doing well in and what adjustments you might need to make to reach your financial goals.

What is the 50/30/20 rule in budgeting?

- After taxes, divide your income and allocate the spending on:
  - 50% needs: Living expenses (e.g., housing, utilities, gas, groceries)
  - 30% wants: Other monthly expenses (e.g.: entertainment)
  - 20% savings: Put this away in savings account, retirement account, or mutual funds

Are there two basic ways to save money?

- Find ways to cut spending. If you are living paycheck-to-paycheck, you will need to budget better. One tip is to deposit a portion of your paycheck directly into your savings account which helps to keep it out of sight and out of mind.
- Set a budget that's reasonable and save and/or invest the rest. Cut expenses by thinking about what's really important and what's nice to have.

What are financial goals and what are the 3 types of financial goals you can set?

- Financial goals set you on a roadmap to living comfortably your entire life, balanced between wants and needs.
- The first is a retirement goal – age of retirement, amount you want to have saved by then. Second, is a budget goal – sticking to a budget so you can accomplish goal #1. Third, is a purchase goal – setting aside a separate account for larger purchases.
- Financial goals are important to have, if you don’t have them, you may spend more than necessary and when a need arises you may be short. Three goals to set may be: 1.) Create an emergency fund, 2.) Paying off credit cards, and 3.) Saving for retirement.

What are some benefits to budgeting?

- You can clearly see what your income is and where your money is spent. If you spend outside of your allocated budget, you need to be able to make up for it the next month or the next paycheck. Once you get behind and spend more than you make, it is hard to catch up.
What are some strategies for saving?

• Shop around for the best savings accounts that have great interest rates.
• Set clear goals, how much you would be willing to spend on an item and how long it will take to save for it.
• When you get a raise at work, increase your 401k or retirement contributions so that your retirement gets a raise too.
• Keeping an eye on your spending habits, helps you to save for now and for the future. It also helps you not spend money that you do not have and helps prepare you for emergencies.

What is discretionary income?

• Discretionary income is the money you have leftover after paying for your necessities (food, rent, phone, etc.) and after allocating money to your savings, debt payments, and investing.

How do you calculate discretionary income?

• Take Home Pay – Bills and Required Obligations = Discretionary Income
• Required obligations include rent/mortgage, utilities, groceries, insurance, for example. After you subtract all obligations from your take home pay, what you are left with is up to your discretionary income.
• Discretionary income may be needed for haircuts, new clothes, extra school needs, doctor visits, home repairs, medicine, etc.
• Working with a budget can help you determine what your discretionary income is each pay period.
What is budgeting?

Budgeting is a list that shows your cash inflows (all the money you have coming in) and cash outflows (all the money you have going out) over a period of time.

Looking to make real financial progress?

Stop into one of our branch locations, call our Customer Contact Center (888-340-2265) or visit us at BMOHarris.com to learn about how BMO can help.

Have questions or need more help?

Connect with your local United Way at: unitedway.org/find-your-united-way
What is the criteria to qualify for a personal loan?

- There are several factors that banks look at when determining if you qualify for a loan.
- Banks start by looking at your annual cash flow to see if the amount is sufficient to support a loan as well as your credit score.
- Banks may also want to look at other assets and collateral (e.g., property, car, business, etc.) if they require a personal guarantee.
- You’ll need government issued I.D (e.g., passport, driver’s license), pay stubs, tax return, and other documents as needed (e.g., bill of sale, mortgage statement).

What are reasons a loan application may be denied?

- Your loan application may be denied if you have bad credit, not enough credit history, or not enough income for what you want.
- You may get rejected from your loan if you have delinquencies on current loans, don’t have a job or enough income to support your loan.

What other factors might influence a lender’s decision to make a loan besides your credit report and credit score?

- They look at your job stability/occupation, your income amount, and what you use as your collateral.

What are payment options when it comes to purchasing a car?

- Cash, direct lending, dealership financing, or leasing.

When purchasing a car, what is the 20/4/10 rule?

- Make a down payment of at least 20%.
- Plan to finance a car for no more than 4 years.
- Don’t let your total monthly car expenses be more than 10% of your gross monthly income.
Where should you look for a business loan?

- You can go to any bank or credit union.

What is an SBA loan?

- Small Business Administration (SBA) loans are government backed business lending options.
- An SBA loan can help cover start-up costs, expansions, real estate purchases, and more. This type of financing is issued by a private lender but backed by the federal government which means if you default on an SBA loan, the government pays the lender the guaranteed amount.
- You apply for an SBA loan through a lending institution like a bank or credit union.
- The SBA requires a personal guarantee from everyone with at least 20% ownership in a company. This guarantee puts you and your personal assets on the hook for payments if you can't make them.

How much should you save in your emergency fund for your small business?

- Depends on the type of business, at least 6 months in reserve or 10% of sales.

What documents should you have for a business loan application?

- Your business tax ID number (TIN) or Employer Identification number (EIN).
- A copy of your filed Articles of Incorporation (for corporations) or Articles of Organization (for limited liability companies). These get filed with the Secretary of State (SOS) in the state where the business is located. Oftentimes, this is done by an accountant or an attorney when the business is established.
- If applicable, you may also need to provide a copy of your bylaws (corporation or non-profit) or operating agreement (limited liability company). However, most small businesses do not need to have bylaws or an operating agreement unless it’s a not-for-profit organization.
- You will also need to provide a copy of the prior year taxes for the business and/or your personal tax returns depending on the structure of the business loan.
- You should also be prepared to answer questions about any other loans you may have with other financial institutions (including mortgages) and/or the small business administration.
- You should have contact information (phone numbers, addresses, and email addresses) and personal information (social security numbers) for anyone who may be a party to loan, such as a guarantor on the loan (oftentimes a spouse or business partner), and the contact information for your insurance agent, and/or a copy of the business insurance policy.
- Required information depends on the type of loan, the collateral for the loan, and state specific requirements so this information can vary.
Loans & Emergencies

What is a financial emergency?
• A financial emergency is when unexpected expenses arise (job loss, home or car repairs, medical emergencies, etc.).

What is an emergency fund?
• An account set aside for emergencies that you have access to at any time.

What are some options to pay for an emergency when you don’t have an emergency fund?
• You can use your credit cards or apply for a loan.

How much money should have in an emergency fund?
• You should have 3-6 months of income to cover unexpected costs.

What is Personally Identifiable Information (PII)?
• Proof of identity (e.g., driver’s license, passport, Social Security Number, personal financial information, etc.).

What is identity theft vs. identity fraud?
• **Identity theft** is stealing personal and private information like name, Social Security number, date of birth (DOB), address, credit card numbers and other financial information.
• **Identity fraud** is when someone is using your identity to commit fraudulent activity.

What are some common identity theft scams?
• ID theft, phishing, cashier’s check and other checks and money orders, online scams, wire transfer, romance scams, IRS scams just to name a few.

What are ways to protect yourself against identity theft?
• Set up transaction alerts.
• Collect your mail from your mailbox regularly.
• Review your credit card and bank statements for unusual purchases.
• Review your credit report frequently using Credit Karma or AnnualCreditReport.com.
• Keep your phone and other electronic devices secure.
• Don’t open emails or click on links from unknown senders.
• Destroy expired credit cards, checks, and other personal information.

What laws protect you against identity theft?
• The Identity Theft and Deterrence Act.

What steps should you take after an identity theft?
• You should file a police report, place a freeze/alert on your credit report, and notify your financial institution where you have your accounts, loans, and credit cards.
Have questions or need more help?
Connect with your local United Way at: unitedway.org/find-your-united-way

Looking to make real financial progress?
Stop into one of our branch locations, call our Customer Contact Center (888-340-2265) or visit us at BMOHarris.com to learn about how BMO can help.
What is a mortgage?

• A mortgage is a loan for a personal residence or building. You apply for a loan to purchase a property (home or business).

• Since homes cost a lot of money, it would be difficult for people to purchase homes without a mortgage. Mortgages allow people to purchase homes and payback the loan over time (15 years, 30 years, etc.).

Where can you get a mortgage loan?

• There are banks, credit unions, wholesale lenders, and mortgage brokers to name a few.

What are some mortgage homebuyer assistance programs?

• There are a few assistance programs such as State Agency Bond Programs, Non-Profit Agency Down Payment Assistance Programs, and Employer Assistance Programs.

• There are first-time buyer programs, FHA Loans, and VA loans to name a few.

What are the different types of mortgages?

• There are fixed rate, variable rate, balloon and reverse mortgages.

• **Fixed rate mortgages** are very popular because you are guaranteed a fixed rate of interest over a period of time (10 years, 15 years, 20 years, or 30 years) so you know what your payment will be every month.

• A **variable rate mortgage** the interest rate can move up or down according to the mortgage lenders prime interest rate.

• A **balloon mortgage** is a mortgage for a certain amount of time with a fixed date. For example, if you know that you will not be in your home for a long time (i.e., < 7 years), you can take out a balloon mortgage. It might be a fixed rate for 7 years and amortized over a 30-year period, but at the end of 7 years, you would need to pay the remaining balance or refinance. The risk you take is being in the home when the balloon payment is due, and rates could be higher at that time.

• A **reverse mortgage** allows senior homeowners to borrow money against the value of their home and receive funds as a lump sum, or a fixed monthly payment. Monthly payment is not required however, when the home is sold, the loan balance is due.
What are the 4 steps in the mortgage application process?

- There are four key steps:
  1) Mortgage application
  2) Loan processing
  3) Underwriting
  4) Closing

What is Private Mortgage Insurance and who needs it?

- Private Mortgage Insurance (PMI) is required when a borrower does not have a down payment of 20% or more. It is insurance for the lender. The borrower is required to pay PMI until the loan to value ratio is less than 80%.

What does it mean when a homeowner is delinquent?

- If your mortgage payment is more than 30 days late, you are considered delinquent.

What are common expenses in home buying?

- Some common expenses are title insurance, appraisal, underwriting fees, and credit application fees, home inspection, down payment, and lender fees.
What is foreclosure?

- When a borrower is four months behind on a mortgage, the lender can take steps to legally request the home be taken away from the borrower.

What are some ways to avoid foreclosure?

- To avoid foreclosure, you can reach out to your lender for ways to keep your home (i.e., modify your mortgage), or you can reach out to a non-for-profit for assistance on your payments.
- You could look to sell the property prior to the foreclosure to repay the debt and receive any equity you have built in the property.

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