SUMMARY

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MONEY

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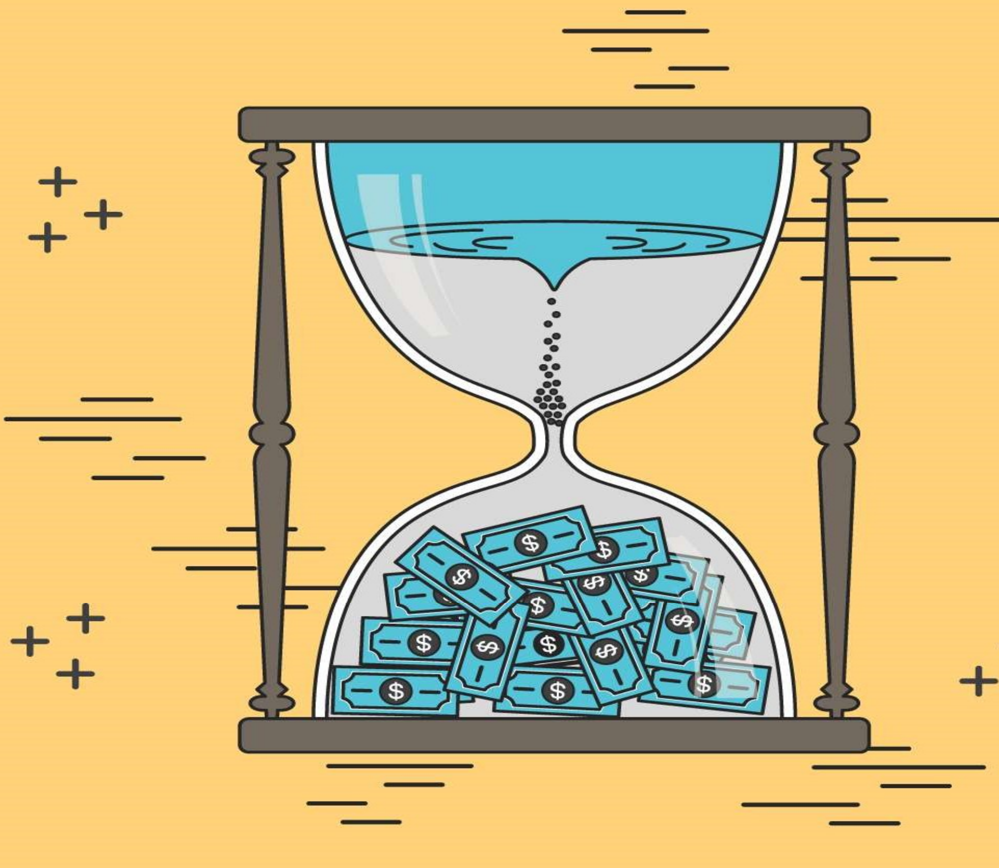

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Summary of Money by Laura Whateley

Written by Alyssa Burnette

Learn all about the commodity that makes the world go round.

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Introduction

We've all heard the phrase "money makes the world go round." We know that money has the power to divide people into two groups: the "haves" and the "have nots." We also know that the pursuit of money can make people do crazy things. But when it comes to our own personal relationship with money, how much do we really know? And what would we do differently if we knew all the right "money secrets" to make our dreams come true? Over the course of this summary, we'll answer those questions and more!

How to Own Your Own Home

If you're a young person in your twenties or thirties, you've probably noticed that this is not your grandma's economy. Your parents and grandparent likely enjoy giving frequent lectures about how, "Back in my day, I bought a house right out of college!" or "I worked hard to support myself through school-- what are you kids whining about?" and these lectures clearly communicate that younger generations are just lazy. But the truth is that the struggles of our current economic climate cannot be blamed on the old excuse of "kids these days are lazy."

In fact, young people today are actually living in a radically different economic landscape from that of their parents and grandparents. And as much as people from older generations might mock millennials for moving in with their parents after college, the logic behind that isn't as straightforward as it seems. No, you're not just looking for a hand-out, and no, you don't expect your parents to keep supporting you until you're forty. But what else can you do when you're crippled by $120,000 worth of student loan debt and your job pays minimum wage? If these struggles define the reality of your personal finances, owning your own home may seem like a distant dream. Same goes for paying off your student loans before you're dead! And as young people struggle to navigate their tumultuous financial futures, they may also develop poor spending habits and rack up a lot of credit card debt.

So, if all of these things are true for you, you may feel like you don't have a lot of hope. But that doesn't mean you aren't desperately searching for a little glimmer of advice! Many young adults spend a lot of time muddling through financial advice articles, hoping for something that will clearly explain how to get out of debt, how to set a solid budget, and how to-- hopefully!-- own your own home. But many of these articles employ complex or inaccessible jargon that distances readers who are not familiar with the world of finance. Many other articles appear to be scams; they're tied to classes or series of video lectures that all promise to solve your problems… in exchange for a hefty fee. Is it any wonder that new prospective homeowners are drowning in confusion and debt?

The author has seen this confusion reflected time and time again in the questions that come to her money agony-aunt column. In addition to crafting accessible books on personal finance, Laura Whateley also writes a column called “The Troubleshooter” for *The Times*. In this regular column, she fields financial questions from people who are desperate and confused. And her work has made one thing very clear: most people are very confused about how to manage money. That’s why she’s passionate about making financial advice accessible. And that’s why this chapter is dedicated to one of the most common questions she sees: how can I buy my own home? So, let’s dive in and take a look at the questions that can galvanize your financial future.

For starters, the author asserts that you can’t do much about the state of the economy. You might not even be able to do much about your own income. But you can control your financial habits and you can choose to put yourself on the path to success. Here’s how: first, the most important thing you can do is change the way you think about your finances. And it’s especially important to revamp the way you think about buying a house. For example, when you think about buying a house, you’re probably familiar with a few basic steps. Those steps include putting down a deposit, applying for a mortgage, and then…I guess you just have a house? That’s the way we tend to think about this major financial decision. The problem, of course, is that it all comes down to whether you can afford a house in the first place.

However, affordability comes down to two key factors. First and most important is your income. How much money you make determines how much of a house you can afford.

But because most people don’t make enough to simply buy a house outright, pretty much everybody needs a loan. So, the second crucial question of affordability is determined by a bank. Or, in other words, your ability to convince a bank to give you a loan that will help you afford a house. Unfortunately, this is where most people’s financial knowledge ends.

Everybody knows they need a mortgage but you might not know how to convince a bank to give you one or what factors go into that decision. So, let's start by breaking down those factors.

When a bank is deciding whether or not to give you a mortgage, they typically look at two key things: your income and the amount of money you can put down for your housing deposit. The author's research indicates that, generally speaking, most people are able to put down a 5% deposit. In many cases, that's all they're able to afford. If you've been renting property for most of your professional life, a substantial chunk of your salary has probably been going to rent. So, if you've been paying a landlord $5,000 every month, you probably don't have $25,000 to put down on a housing deposit. Even though you've clearly been able to afford $25,000 worth of housing throughout the year, you might not be able to produce that money all at once if you're asked to prove that you can afford the deposit. This, of course, can create a frustrating and unfair conundrum for prospective buyers.

So, if you want to avoid this frustration-- or the roadblock of being rejected for a mortgage-- the author recommends two steps. Firstly: wait. Waiting can give you an opportunity to save more. You might not be able to buy a home within your ideal timeframe, but waiting can give you a vital benefit. And that's where the second step comes in. You want to use that waiting time to save up 10% of your mortgage. If you can put down a 10% deposit, you can unlock cheaper rates. And those rates will make your housing search a lot easier! So, the moral of this story is to take your time, save your money, and be smart.

Don't rush into something or make things harder for yourself if you don't have to. If you can afford to take a little more time to save money, you should do it! The deposit you put down will have a long-term impact on your mortgage rates and this will determine the amount you have to pay in the future. So, be kind to your bank account and your future self! Take time to learn and save up.

What You Need to Know About Credit Cards

When I was a little girl, I was so confused whenever my parents told me that we couldn’t afford to get as many new toys as I wanted. I could see the credit cards right there in their wallets and I thought those credit cards meant free money. So, why not spend it? Eventually, I grew up and understood that credit cards are not free money at all and that it’s best to be careful with them. But unfortunately, many people seem to embrace the same childish mindset I had when I was six years old. Unsurprisingly, this can lead to a variety of problems, and credit card debt is one of the worst financial issues you can encounter. So, let’s talk about the do's and don'ts of managing a credit card. Accountant Greg Depersio breaks down a few of the basics by dissecting the core differences between a debit card and a credit card.

For starters, Depersio explains that “when a consumer uses a debit card, the money comes directly from his or her checking account. When he or she uses a credit card, the purchase is charged to a line of credit for which he or she is billed at a later date. A debit card may come with an overdraft line of credit connected to a customer's checking account to cover overspending. A credit card has a specified amount of credit connected to it, and if a consumer tries to spend beyond the credit limit, the card will be denied.”

Depersio also has a specific term which denotes the function and danger of credit cards. He refers to them as “debt instruments.” What exactly does that mean?

He explains this definition by affirming that “a credit card is a debt instrument to be used for financial transactions in lieu of cash or check, or a debit card. Depending on its owner's credit-worthiness, a credit card may have come with a high spending limit or a lower one. When you use a credit card, the purchase amount is automatically added to your outstanding balance. With most credit card companies, a customer has 30 days to pay before interest is charged on the outstanding balance, though in some cases, interest starts accruing right away. Interest rates on credit cards can be notoriously high; they are a chief way credit card companies make money.

Savvy consumers can avoid paying it by settling their balance in full each month."

This final sentence brings us to the key takeaway for this chapter: the importance of paying off your credit card in full. However, many people don't believe this is important because of something called a "minimum payment." Here's how that payment system works. For example, let's say that your line of credit is a maximum of $500. That's all the credit that you have in the world; you can't use your credit card to spend $501 or $1000, all you have is that $500 limit. So, let's imagine that your credit line of $500 comes with a minimum payment of $25. But what does that minimum payment mean? Deb Hipp is a personal finance guru who has written numerous articles on the topic of minimum payments and she explains this financial concept with the following definition:

"A minimum payment on a credit card is the least amount you must pay by the due date to avoid a late fee. The minimum payment calculation is based on your full balance, including interest from not paying your balance in full. With some credit card companies, if your balance is lower than the set minimum payment, that balance amount will be your minimum payment. While paying less than your full balance may save you money this month, it costs you more in the long run. If you pay the credit card minimum payment, you won't have to pay a late fee. But you'll still have to pay interest on the balance you didn't pay."

So, in the example we discussed above, your minimum payment for a $500 line of credit might be $25. Whether you spent $50 or maxed out your credit card that month, you would still have to pay $25 every month until your balance is back up to an even $500. That sounds pretty easy, right? Most people can afford to set aside $25 every month and certainly most people find it easier to pay $25 than $500. So, why would that be problematic? As Hipp asserted, it can be problematic because slowly paying off your credit card bill will cost you a lot more in the long run thanks to interest fees, potential late fees, and the long-term expense of paying your debt off one bit at a time. So, the moral of this story is: don't set your sights on the minimum payment!

It might look easier, but it can be expensive and problematic in the long run. So, if you can possibly afford it, you should always make a practice of paying your credit card bill in full every month. You should also avoid over-spending with your credit card! Although it's easy to think of your credit card as free money, remember that any credit card is ultimately a debt instrument. So, anything you put on your credit card is a charge you will ultimately have to pay back. Keeping this in mind can help you make smart financial choices for your future!

Final Summary

If you're a young professional who's trying to get started in life, you probably have a lot of questions about money and how to manage it. You've probably also realized that your parents and your education did not adequately prepare you for the realities of being an adult with bills and mortgages and credit cards. That's why the author is passionate about providing clear and accessible financial information for everyone who needs it. The lessons in this book are only a fraction of the important things we need to know about money, but they can provide you with some valuable insights that will help you in the long run.

For example, the information in this book can demystify the process of buying a house and managing a credit card. And if you're interested in getting a mortgage for your first home, you can make confident and informed decisions about mortgage rates and deposits. One of the most important tips to remember is the 10% deposit rule. Most people can only afford to put down 5% of the deposit for their mortgage. This can have a negative impact on your future with your new home because you will be forced to pay higher rates. But if you can save up 10% of your deposit, your rates will be lower, thereby affording you more financial freedom for your future.