



EASTERN CARIBBEAN CENTRAL BANK

Financial Tips

1. Managing Gift Expenditure

Gifts are among those extra expenses that when added together can throw a budget way out of line. People tend to buy gifts on impulse and fail to do comparison-shopping. To reduce the amount spent on gifts consider the following tips:

- ◆ *Place a limit on the total amount of money you plan to spend on gifts.*
- ◆ *Using the total dollar value on gifts as your limit, identify the number of gifts that you plan to purchase and the amount that can be realistically spent on each gift within the identified budgetary limits.*
- ◆ *Look for bargains. By shopping ahead of major holiday seasons and gift giving events, you will be able to find quality gift items at reasonable prices.*
- ◆ *And finally incorporate your skills into gift giving ideas. If you are skilled in baking consider giving a cake as a gift, or if your hobby is gardening consider giving someone a potted plant.*

2. Using Your Credit Card

Credit cards can be very useful if carefully planned in your lifestyle goals, or they can put you in a bind financially by keeping you tied to payments for items long since used up, broken or discarded. Here are a few tips when using credit cards.

- ◆ *When applying for a credit card read the contract and be sure you know exactly what is the annual interest.*
- ◆ *If your credit card is costing you more than a bank loan then it may be wiser to forgo using your credit card and apply for a loan at your bank.*
- ◆ *Treat the credit card purchases, as you would cash purchases, paying off the balance in full at the end of the month.*
- ◆ *Do not purchase an item on your credit card that you would not readily spend cash for.*

3. Creating a Will:

A good financial plan should always include a good solid will. Some people think that a will is for the wealthy but in fact if you have property or assets of any description, it is essential to have a will. This is particularly important for individuals with minor-aged children. And the earlier you establish a plan for settling your estate the more secure you are in ensuring that your assets are distributed according to your wishes for the maximum benefit of your heirs.

Should an individual die intestate, i.e. without leaving a will, it can cost his or her beneficiaries significant taxes. It can also lead to disputes and other inconveniences for the beneficiaries.

Here are a few tips for preparing your will:

- ◆ *Designate an executor whose integrity and judgment you trust. Also name more than one executor, or name an alternative to your first choice.*
- ◆ *Plan your wills together but make sure that you and your spouse, or life partner, each have separate wills*

- ◆ *Designate a guardian. Identify the individual you wish to assume guardianship of your minor-aged children in your will*
- ◆ *Designate alternate beneficiaries. Consider to whom you want your assets to go should your heir pre-decease you, and include these alternates in your will.*
- ◆ *Get professional advice.*
- ◆ *Take advantage of all tax-reducing options you can have.*
- ◆ *Review and revise your will regularly to make sure it is up to date and realistically reflects your wishes.*

4. Buying a Car

The most sensible starting point when buying a car is to organize your finances and evaluate your net worth. Your net worth is the amount by which your assets (what you own) exceed your liabilities (what you owe). In simple terms it is your assets minus your liabilities. Your net worth is going to be an important issue for discussion with your loan officer if you plan to finance the purchase of the vehicle with credit from a bank or other financial institution.

Next you have to consider how all your living expenses will be met before making a commitment to purchase a car. Remember that in addition to the monthly loan payments, you will need to consider the other maintenance expenses for the vehicle: gas, tires, servicing as well as annual licensing and insurance fees. Having considered all these expenses; ask yourself if you can afford a car in your financial situation. If the answer is yes then use this information to establish an appropriate price range for your new car.

5. Applying for Credit

Credit is not a bad thing provided it is managed properly. It can be used to meet expenses arising from unexpected emergencies, or to take advantage of sales or special bargains. But, on the other hand, credit can cost you money in the form of interest charges. Using it to obtain goods and services that you cannot afford, can result in trouble keeping up with the payments later on. It can also make it easier for you to buy on impulse, which can throw your budget off track and make it harder for you to achieve your goals.

Here are some useful guidelines for applying for credit:

- ◆ *Assess your income and expenses in detail to determine whether you are in a financial position to take on additional debts. Should taking on additional debt make you unable to handle unexpected expenses with some financial ease, consider delaying the addition of more debt until you are in a better financial position and have built up a comfortable level of savings.*
- ◆ *Make sure that existing credit obligations, such as hire purchase, outstanding credit card balances, unpaid bills and other loan commitments, are as up to date as possible.*
- ◆ *If you are married, both you and your spouse should be present when applying for credit. Debt is a household obligation, so both partners should have a full and complete understanding of what is involved.*

- ◆ *Make sure that the repayment period does not exceed the life span of the proposed purchase (for example a car, a household item or new clothing items.)*
- ◆ *Shop around for the best rates and conditions.*

6. Buying or Building a Home

For many of us, buying or building a home is the largest purchase in our lifetime. While home ownership can be a rewarding experience, the true foundation of security rests in owning a home that falls within your financial limits.

Before you visit your financial institution with the intention of securing a mortgage give careful consideration to the following points:

- ◆ *Financial institutions require that you have adequate cash to cover the down payment and initial costs associated with the property you intend to acquire. The down payment is usually 10%. Initial costs, which include items such as legal fees, and property taxes, may average between 5%-10%. So in all you should strive to have about 20% of the value of the property before you consider a mortgage. If you have little saved towards your down payment or initial costs, begin saving a regular amount for this purpose.*
- ◆ *Assess in great detail the monthly costs and other costs associated with buying or building a home. For most homeowners, mortgage payments constitute their largest monthly outlay of cash. In addition to monthly mortgage expenses you must consider other expenses such as property taxes, insurance and expenses related to the maintenance and upkeep of the property. Use this information as a guideline in establishing an appropriate price range for your new home.*

- ◆ *Evaluate various amortization periods for your mortgage loan (i.e. the total period of time over which the mortgage must be repaid). Amortization periods vary – usually anywhere between 15 to 25 year. The total amount of interest that you will pay over the life of your mortgage varies according to the length of the amortization period. The shorter the amortization period, the more you will pay on a monthly basis, but the less you will pay in interest costs over time. Alternatively, the longer the amortization period, the less you will pay on a monthly basis, but the more you will ultimately pay in interest costs.*

7. Refinancing Your Mortgage

There are times when it makes sense to refinance, but sometimes it doesn't. A person who is considering mortgage refinancing must have a clear objective in mind. The objective may be to take advantage of lower interest rates, to lower monthly payments by increasing the term on the mortgage, or to increase long-term savings by reducing the term on the mortgage and thereby lowering the total interest charges. Whatever the objective, it should be based on your financial needs for the next several years.

The decision to refinance should not be based solely on interest rates. Also take into consideration issues such as the length of time you expect to be in the home. If you are into the third year of a twenty-year mortgage and you plan to sell your house within two years it may not make sense to refinance. Consideration should also be given to the total closing costs for refinancing. Determine whether the interest rates will compensate for the closing cost and other fees that you will incur by refinancing.

8. Shopping Around for a Loan

How often do you shop around for loan rates? Even if you are fully satisfied with your current bank and loan rate, you need a backup institution. By talking to other banks you might be able to snag a better deal than the one you currently have.

When shopping around for a loan, ask the bank official whether the credit terms are based on a flat interest rate or a reducing balance interest rate. The flat interest rate, also referred to as the add-on interest rate method, is calculated on the entire loan throughout the period of the loan. This means that even though you repay part of the principal with each instalment, the interest you continue to pay monthly will be on the full amount of the original principal.

In loans with a reducing balance interest rate, the principal amount keeps reducing as you repay the loan. This means that you pay interest every month on that part of the original sum that remains unpaid up to that period.

In short, you can end up paying much more in the case of a loan calculated using the flat rate interest method rather than the reducing balance method.

9. Making The Most Of Hire Purchase

This is the era of consumption. Not only are we spending more than we have ever done, but when we want to buy something, we want it now. Instant self-gratification means that we are increasingly prepared to buy now and pay later, no matter what the cost.

Consumers should be aware that while some hire purchase offerings are good deals for consumers, others are not, charging buyers excessively high interest rates.

When purchasing items on hire purchase, it is important to know exactly what you are getting into.

First, determine the difference in the cost of the item paid for on a cash basis, compared with hire purchase. Sometimes you can end up paying three times the cash

price for an item by buying on hire purchase. Depending on the rates offered by your local bank, it may be less costly to obtain a loan towards the purchase of the item instead of taking it on hire purchase.

Second, ask the sales attendant to explain to you the interest on the hire purchase items. And take time to read the hire purchase agreement – because once you have signed on the dotted line you are legally tied in. Remember if you default on your repayments after diligently paying for months or even years you risk losing what you thought you bought.

10. Reducing Your Living Expenses

Do you sometimes feel overwhelmed by your expenses? If so, here are a few tips that can help you unravel from bills that seem to have no end:

- ◆ *Buy large sizes or in bulk. If your family isn't large enough to justify the quantity, team up and share with a colleague at work, a neighbour or a friend.*
- ◆ *Check your local newspaper for sales of your favourite foods/products and stock upon them.*
- ◆ *Examine your entertainment budget and try to reduce it.*
- ◆ *Consider taking your lunch to work rather than eating out.*
- ◆ *Wash your own car.*
- ◆ *Buy washable rather than dry-clean clothing.*
- ◆ *Control your credit card purchases by leaving your card at home unless you have a specific purpose in mind.*
- ◆ *If overburdened by debt consider consolidating your loans. You may be able to secure a lower interest rate and a single monthly payment.*
- ◆ *Don't go to sales unless it is with the intention to acquire an item you intended to buy before you heard about the sales*

- ◆ *Commit yourself to spending an hour a week reviewing your budget to try to identify expenses you can reduce.*

11. Starting A Home Business

Many people start a home business as a means of increasing income and securing their financial future. While there are numerous success stories, there are also many stories of failure. Home businesses fail largely due to a lack of careful planning. Here are a few issues for consideration when starting a home business.

- ◆ *When starting out, it is easy to get caught up with your enthusiasm for your own business idea. But force yourself to step back and take a hard look at the numbers and your prospects in the market place. Remember products don't make you money, customers do.*
- ◆ *If you are currently employed, rather than resigning try balancing your current job with your home business at least in the initial stages until your home business boasts strong financials and reasonable expectations for the future. In addition to the security of a constant income flow, your substantive job may provide other benefits such as health insurance and a retirement pension. Since as a business owner, your greatest asset is your ability to produce an income, you would need to have an adequate health, disability and life insurance plan. So think carefully about how you would finance these insurance needs, were you to quit your job while developing your home business.*
- ◆ *Ensure that you separate your home expenses from your business expenses and keep the books of your business up to date and in order. This will allow you to track the profitability of your business. Having a good grasp on the business expenses and income will also put you in a good position to approach a bank for credit should you need to expand. Banks require that*

you provide them with financial statements relating to your home business in order to consider your loan application.

12. Saving for Retirement

Like most people you probably wonder how much you should save to meet your financial needs at retirement. There is no single answer to that question and the solution is be different for everyone. Depending on any number of personal factors, the amount you must save will vary. Here are some key considerations that will affect your savings goals.

- ◆ *Your anticipated age at retirement. Do you plan to retire within a short time frame, let us say within the next five years? If so you need to assess how much money you will have saved by this time.*
- ◆ *Your estimated Social Security Pension and other pensions. What will be your estimated pension at the time of retirement?*
- ◆ *The type of lifestyle you hope to maintain. Do you expect to participate in social activities, travel, dine-out? Or is it more likely to be a quiet, home-oriented retirement? These and other lifestyle choices will determine the amount of money you need to support your retirement lifestyle.*
- ◆ *Your living situation at retirement. Will you remain in the same home? Move to another community? Or move to a retirement home?*
- ◆ *Financial obligations at retirement. Will you have mortgage or other loan payments to make? If so, how long do you expect to have to maintain these obligations? Are there children or parents who may need financial help and, if so for how long?*

- ◆ Anticipated expenses at retirement. Do you foresee any major new expenses? Will you need a new car? Are you planning to renovate?
- ◆ Health considerations. Are you generally in good health or are there some concerns? Does your family have a history of longevity? The longer you plan to be retired, the longer your financial resources will have to support you.

In order to ensure that you retire in style, take important decisions now and develop a solid financial plan to ensure that you have adequate savings to meet your needs in later years.

13. Choosing a Broker Dealer

Broker dealers are financial intermediaries that provide a wide range of financial and investment services to investors including the execution of trades, advice on which securities to buy or sell, as well as on financial planning. A broker dealer can help you to understand and make future investment decisions with confidence.

Clearly your choice of broker dealer is critical. Before making your choice, shop around. Ask questions. Speak to persons who may have had experiences with one or more broker dealers and listen to their reviews. Visit several broker dealer firms. Evaluate their rate schedules, as well as their ability to provide you with the services you need. Having chosen a broker dealer, make sure that you receive regular statements detailing your investments and their performance. Evaluate the performance of your investments. On average, did they increase in value or were there significant losses? Answers to these questions would indicate whether you have selected a broker dealer that is ideal for you or if you should look for another broker dealer to take care of your investments.

If the selected brokerage firm reneges on its obligation to you as a client, have recourse to the regulatory authority, which is the Eastern Caribbean Securities Commission.

14. Recognising Counterfeit EC notes

Unscrupulous individuals often attempt to circulate counterfeit notes during periods of heightened commercial activity and in large gatherings such as at Christmas, New Year and during carnival celebrations.

Counterfeit notes have no value, and persons in possession of them may be prosecuted. All persons are therefore urged to exercise caution, particularly at night and in dimly lit situations, and to look out for the security features when accepting notes. These include the following:

- ◆ *A security thread with text reading “ECCB” is incorporated into the paper. The thread can be clearly seen **through** the paper.*
- ◆ *Each genuine note bears a different serial number, printed vertically on the left hand side and horizontally on the right hand side. No two notes of the same denomination ever have the same serial number.*
- ◆ *On the front left hand side of any genuine note, a watermark of Queen Elizabeth II can be seen when the note is held up to the light.*
- ◆ *A watermark highlight, which reads “ECCB” can also be clearly seen when the note is held up to the light.*
- ◆ *In the centre of the back of the note is an image of several fishes, printed with special ink, which glows.*

- ◆ *Genuine bank notes are printed on special paper that gives them a unique feel.*

Persons who think they may have come into possession of counterfeit notes should take them to the nearest police station.

Brochures and posters highlighting the security features of the Eastern Caribbean Bank Notes are available from the Eastern Caribbean Central Bank Head Office, in St Kitts and from the Representative Office in each of the ECCU member countries.

15. Using an Overdraft Facility

An overdraft facility is an automatic line of credit, used primarily by sole traders, partnerships and limited liability companies to assist with working capital and to cover daily expenditure of the business.

Companies use the overdraft facility to:

- ◆ *Improve their cash flow and*
- ◆ *to pay for goods and services pending receipt of their receivable.*

Proper servicing of this facility establishes a good credit history, which is important in ensuring future credit.

Individuals can also use and benefit from overdraft facilities, particularly in the event of emergencies.

The terms and conditions including the fees and charges payable for use of an overdraft facility may vary according to the policies of the credit institution extending the line of credit. Prospective users should examine the terms and

conditions offered by the various institutions and select the one best suited to their needs.

Some credit institution charge both a fee for arranging the overdraft ,and a monthly fee in addition to interest on the amount of the overdraft utilised. Other institutions have no arrangement fees or monthly fees. The balance calculation method may also differ among institutions, with some offering r a grace period in which to repay the monies advanced before calculating interest, and others computing interest on the date the cash advance is drawn. Also, the interest charged may be substantially higher than that charged for a traditional loan.

16. Bankruptcy

In today's world, it is easy to get into a situation where debt mount and you are unable to either make all your monthly payments or eliminate your debt altogether.

Credit has become a necessity for most of us. When used effectively it can help us to improve our lives. Unfortunately however, it is all too easy to slip beyond the comfort zone and become unable to repay the credit. In this situation, the end result is bankruptcy.

What is Bankruptcy?

Bankruptcy is the judicial process by which a person is declared in law to be unable to pay his debts from his resources

Bankruptcy, which is governed by the relevant bankruptcy laws in a country, starts with presentation of a petition.

Effect of Bankruptcy

When a bankruptcy order is made, the individual becomes subjected to a number of restrictions and disabilities, and business activities become seriously curtailed. The

bankrupt will invariably experience difficulties in accessing credit as he would need to disclose his bankruptcy and this could make it very difficult for him to carry on his business

Various jobs and positions may be barred to an individual who is an un-discharged bankrupt.

Here are some tips for Avoiding Bankruptcy
Sound Financial Management is very important.

- ◆ *Ensure that you have sufficient liquid assets to meet short-term obligations*
- ◆ *In the long-term ensure that your liabilities do not exceed your assets*
- ◆ *Avoid incurring additional debt*
- ◆ *Be cognizant of the interest charges on overdrafts and credit cards*
- ◆ *Ensure that you obtain the right credit facility to suit your needs*
- ◆ *Ensure that you maintain a budget and if you own a business that regular financials are carried out*
- ◆ *Where necessary get professional advice on preparing business accounts, taxes, etc.*

A debtor in financial difficulties, may attempt to voluntarily make arrangements with the creditor to pay off the debt. This however will depend on the nature of the debt and what arrangements the creditors will accept. Professional advice should be sought.

Where bankruptcy is inevitable it is advisable to seek legal advice. Your legal adviser will provide you with the best solutions, given the circumstances.