**Basic Financial Literacy**

**Purpose** Financial literacy equips you with the knowledge to make informed decisions about managing money, understanding credit, and planning for the future. This worksheet introduces foundational financial concepts to help you achieve stability and confidence in your financial life.

**What is Financial Literacy?** Financial literacy is the ability to understand and effectively use financial skills, including budgeting, saving, investing, and managing debt. It empowers you to take control of your money and work toward financial goals.

**Step 1: Understand Key Financial Terms** Familiarize yourself with these essential financial concepts:

* **Income**: Money you earn or receive, such as from a job, freelance work, or investments.
* **Expenses**: Money you spend on necessities (e.g., rent, food) and discretionary items (e.g., entertainment).
* **Credit Score**: A number that represents your creditworthiness. It impacts your ability to borrow money and the interest rates you receive.
* **Interest**: The cost of borrowing money or the return earned on investments.
* **Debt**: Money you owe to lenders, such as credit card balances or loans.
* **Savings**: Money set aside for future needs or emergencies.

**Exercise** Write down one question or concept you’d like to learn more about from the terms above: Question/Concept: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Step 2: Track Your Financial Habits** Understanding your current financial habits is key to improving them. **Exercise** Reflect on your financial habits. Answer the following questions:

* How do you track your income and expenses? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Do you save a portion of your income regularly? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Are you currently managing any debt? If so, how? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Step 3: Credit Score Basics** A credit score is crucial for accessing loans, renting apartments, or even getting a job. Scores range from 300 (poor) to 850 (excellent). **Factors That Affect Your Credit Score**:

1. **Payment History** (35%): Paying bills on time boosts your score.
2. **Credit Utilization** (30%): Use less than 30% of your available credit.
3. **Length of Credit History** (15%): Longer credit history improves your score.
4. **Credit Mix** (10%): A mix of credit types (e.g., credit cards, loans) is beneficial.
5. **New Credit Inquiries** (10%): Too many applications for credit can lower your score.

**Exercise** Write one step you can take to improve or maintain your credit score: Step: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Step 4: Learn About Interest Rates** Interest rates affect both borrowing and investing. When borrowing, lower interest rates mean you’ll pay less over time. When investing, higher interest rates increase your earnings through compounding. **Exercise** Think about one way interest rates currently affect your finances (e.g., a loan, savings account, or credit card). Write it down: Impact of Interest Rates: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Step 5: Build a Savings Plan** A good savings plan includes short-term goals (e.g., vacations), long-term goals (e.g., retirement), and an emergency fund for unexpected expenses. **Exercise** Write down one short-term and one long-term savings goal:

* **Short-term Goal**: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* **Long-term Goal**: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Step 6: Create a Plan for Managing Debt** Managing debt is a critical part of financial literacy. Start by listing all debts, including balances, interest rates, and minimum payments. Consider strategies like:

* **Debt Avalanche**: Pay off debts with the highest interest rates first.
* **Debt Snowball**: Pay off the smallest debts first to gain momentum. **Exercise** Identify one step you can take to manage or reduce your debt: Step: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Conclusion** Financial literacy is a journey that begins with understanding the basics of managing money, credit, and debt. By gaining clarity on these concepts, you can make informed decisions that align with your goals and values. Small, consistent actions—like improving your credit score, saving regularly, or reducing debt—will build a foundation for financial stability and long-term success. What is one financial step you’ll commit to today?