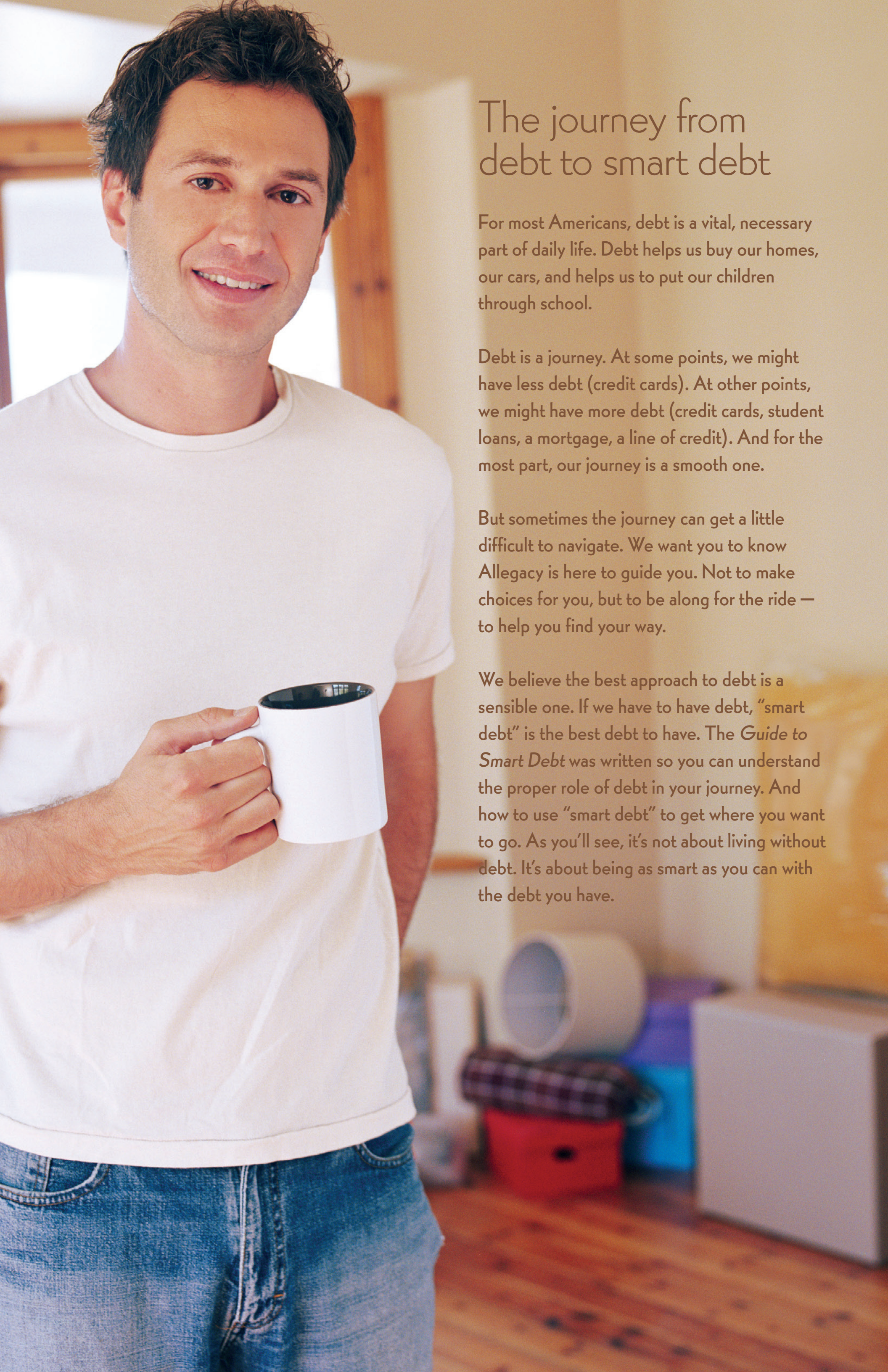
It's not about being debt-free. It's about being debt-smart.

Allegacy



The journey from debt to smart debt

For most Americans, debt is a vital, necessary part of daily life. Debt helps us buy our homes, our cars, and helps us to put our children through school.

Debt is a journey. At some points, we might have less debt (credit cards). At other points, we might have more debt (credit cards, student loans, a mortgage, a line of credit). And for the most part, our journey is a smooth one.

But sometimes the journey can get a little difficult to navigate. We want you to know Allegacy is here to guide you. Not to make choices for you, but to be along for the ride — to help you find your way.

We believe the best approach to debt is a sensible one. If we have to have debt, "smart debt" is the best debt to have. The *Guide to Smart Debt* was written so you can understand the proper role of debt in your journey. And how to use "smart debt" to get where you want to go. As you'll see, it's not about living without debt. It's about being as smart as you can with the debt you have.

Opportunities and challenges: Understanding the choices you have to make

Almost everyone has debt of some kind. The key is understanding how debt can benefit you and how to steer clear of potential trouble.

Mortgages, loans, lines of credit and credit cards give you more potential buying power, tax advantages (for most mortgages and home equity loans), convenience, payment flexibility and even rewards for everyday purchases.

However, this kind of debt can present challenges if loans and credit cards are over-used without regard to how or when they will be paid off. And it can happen very quickly. Before you know it, you could be sidetracked paying high-interest rates on long-term loans.

Taking advantage of any loan or credit offer should only be done after careful planning and a clear picture of the terms, rates and other conditions associated with your loan.

Making smart choices about rates

Interest rates get much attention in the media, and for good reason. High interest rates on loans and credit cards can cause debt to spiral out of control. All it takes is one bump in the road—incurring a big expense unexpectedly, or spending beyond your means.

So it's extremely important to make smart choices now about your loan and credit card rates. The best way to think about rates is to look at how long it would take to pay off a specific amount at the rates associated with different credit and loan vehicles. The chart below shows not only how much a high-interest loan can really cost you, it also shows you how much more quickly your debt can disappear with a lower interest rate.

Bottom line? It pays to look for the most favorable rates for your budget.

See the difference a rate makes

Original loan amount	Interest rate	Monthly payment	# of payments	Total loan payments
$20,000	16%	$350	109	$37,800
$20,000	12%	$350	85	$29,750
$20,000	7%	$350	70	$24,500

(Loan payments are approximate and are provided only for example.)

What are your interest rates? Write the interest rate for each of your loans and credit cards here. You can perform the same exercise using our loan calculator at AllegacyFCU.org

Mortgage: ________________%

Equity loan/ Line of credit: ________________%

Other loan: ________________%

Credit card: ________________%

Credit card: ________________%

Credit card: ________________%

Making smart choices about how much debt to carry

The next step in moving your debt in the right direction is figuring out how much debt you can actually afford. Naturally, the amount of debt you can afford is directly related to your household income—your debt-to-income ratio.

Calculating your debt-to-income ratio will give you a straightforward picture of your financial position. The chart below illustrates your debt-to-income ratio. It is your total monthly long-term debt payments (mortgage, auto loan, minimum credit card payment) divided by your gross monthly income.

Calculating your Debt-to-Income ratio

Monthly mortgage payment		$ ________
Monthly auto loan payments	+	$ ________
Other long-term debt monthly payments	+	$ ________
Average monthly credit card payments	+	$ ________
TOTAL MONTHLY PAYMENTS	=	$ ________
Gross monthly household income	÷	$ ________
	=	________
	× 100	________
DEBT-TO-INCOME RATIO	=	________ %

Here's what your debt-to-income ratio means.
If your debt-to-income ratio is:

Less than 36% .... You have an ideal amount of debt for your income level.

37% to 42% .... You may be managing well now, but make efforts to pay down your debt. Your ability to obtain loans may be affected.

43% to 49% .... Your debt may be dangerously high. Take immediate action to get spending and payments under control.

Greater than 50% .... Seek professional assistance right away with forming a plan for dramatically lowering your debt.

Making smart choices about credit cards

Credit cards are convenient, versatile and are remarkably useful tools for getting what you need. Plus, they can help you build a positive credit history.

However, when interest rates and monthly payments become too much to handle, credit cards can lead to financial problems. Credit cards were designed to be short-term financial tools. That is, when a credit card gets paid off every month and has a competitive interest rate, it's a smart choice, whereas carrying over credit card debt every month is not.

Here are a few tips to keep in mind:

- Choose your card carefully.
- Spend only what you know you can pay off.
- Don't just pay the minimum. Pay it off.
- Avoid impulse spending.
- Got a high rate? Find one that's lower.
- Got a high balance? Put the card away.
- Have more than one card carrying a balance? Consider consolidating.
- Know the rate, the fees, and all other terms of your credit card agreements.
- Understand that qualifying for more credit is not the same as being able to afford to spend more.

If your credit card balance is forcing you to make only low or minimum monthly payments, you might consider an equity line of credit. Depending on your situation, you could pay off your card and lower your monthly payments in one easy step.

Get out of debt free? BEWARE

Many of the debt consolidation ads you see on TV sound too good to be true. In fact, most of them are. Typically, you end up saddled with even more debt. Plus, many charge upfront fees and do not disclose all of the terms. Do your homework before dealing with any financial institution.

Making smart choices about paying debts

Now that you know the rates of your loans and credit cards, and how much debt you can truly afford, you can get a better idea of what to do next: whether you should consolidate your loans in order to lower your interest rate or monthly payments, or whether you're already on the right track.

A home equity loan or line of credit is a popular way to consolidate and pay off higher interest debt. Generally, an equity loan offers a lower rate than a credit card, meaning more of each payment will go toward the original loan amount.

The key is not running up more credit card debt again. Consolidating debt is a move that should be part of a larger strategy to curb your spending and get on the path to using debt in a smarter, more beneficial way.

Making smart choices about mortgages

As the mortgage market rebounds from a meltdown, it is even more important to have good sources for information and mortgage products that will help you make smart choices.

First of all, remember that not all mortgages are the same. There are a variety of different mortgage products and lenders out there—some you've heard of, some you haven't. Navigating the sea of options can be very complex. Not all mortgages are right for you.

In fact, just as your life changes over time, your borrowing needs also change. The mortgage you started with may not be the best mortgage for you at this point on your journey. The point is to periodically reassess your mortgage to make sure you're still on the right path. You may find that refinancing is worthwhile, or that you need to make a move and take advantage of lower rates, or a jumbo mortgage loan, which has become harder to find in the current mortgage crisis.

Fixing the problem—15 and 30-year fixed mortgages.

If you're considering buying a home and want the stability and predictability of the same rate and monthly payment for the next 15 to 30 years, then a traditional fixed rate mortgage could be right for you – particularly if you plan to be in your home more than seven years.

When does an ARM make sense?

ARMs (Adjustable Rate Mortgages) are mortgage loans that have a set rate for the first few years of the mortgage, then the rate adjusts (either up or down depending on the terms of the loan) every year after the initial set rate period. For instance, a 5/1 ARM is a mortgage loan that has a set rate for the first 5 years. After the fifth year, the rate resets every year for the remaining term of the loan (say, 30 years).

ARMs are useful mortgage products for many homebuyers. The initial rate is usually lower than a traditional 30-year fixed mortgage. However, homeowners should know exactly what they are getting into with an ARM. Your mortgage rate can go up dramatically from one year to the next, leaving you with unexpectedly higher monthly payments. Therefore, it is a good idea to have a plan in mind for what to do when the rate resets. This initial consistency is a good option for first-time homebuyers or others who plan to be in their existing home no longer than five to seven years.

Jumbos are harder to find.

Jumbo mortgages apply to any borrowed amount greater than $417,000. Many lenders have stopped issuing jumbo loans or have priced them out of reach of most borrowers during the recent mortgage "meltdown." However, there are lenders out there offering this mortgage option at a reasonable rate. Allegacy is one of them.

Variable rate mortgages and other exotic mortgage options.

Although attractive because of their typically low initial rate, this type of mortgage has drawn much media attention lately. This mortgage type is not for everyone. If your monthly mortgage payments are close to 36% of your gross monthly income, you want the mortgage with the most stable rate. A variable rate mortgage would leave you vulnerable if rates rise (as they tend to do) and you aren't prepared for higher payments.

Ultimately, there is much to consider when choosing a mortgage. It is important to make sure you know the rate, terms and fees associated with your mortgage, in addition to how much of your income you can comfortably afford to spend. Reviewing your options with us is a good idea. Our loan experts can answer your questions and go over the details with you so you can make the most informed decision possible.

Planning ahead is always a smart choice

One of the best ways to preserve and grow wealth is to effectively prepare for debt. In sports, experts sometimes say the best offense is a good defense. This can be true in the debt game as well. Planning ahead in case you have to endure higher amounts of debt is not just a smart move; it's the best way to make sure added debt doesn't push your goals further away.

Pre-qualifying for loans you might never use.
Pre-qualifying for loans can give you a head start on unexpected expenses that arise, saving you a step in the future. This also allows you the luxury of shopping around for the best rates and terms.

Tapping into home equity before you need it.
Homeownership gives you the opportunity to tap into your equity. As a bonus, the interest on a home equity loan or a home equity line of credit is usually tax deductible*. Home equity interest rates are typically lower than those of other loans or credit cards. You can easily set up an equity line and have it there waiting—just in case you need it—taking out only what you need. Many people even set up an equity line when they purchase their home. It's a smart choice. The trick is to take a look at the equity line after a few years. There's a good chance that you could increase your equity line as your home appreciates.

*For information regarding your specific tax situation, please consult a tax advisor.

Smart resources at your fingertips

There are a variety of loan calculators available online to help you figure out monthly payments, debt-to-income ratio and more. Our website is a good place to start:
AllegacyFCU.org/calculators
Then click on the Home & Family Finance Resource Center for more articles and information about mortgages and managing debt.

Other online resources include:

MyMoney.gov
ConsumerCredit.com
CreditUnion.coop

Keeping track of your credit for free. Want to know the best-kept secret of the credit business? You can get free copies of your credit report once a year from the three major credit bureaus. It's the law. Order your report from **AnnualCreditReport.com**, which the three credit bureaus have set up specifically for this purpose.

At Allegacy, we want you to have the right information to make smart financial choices. Depending on your unique financial situation, you may want to talk directly with an Allegacy Loan Specialist about your mortgage, loan or debt management needs. Contact us at 336.774.3400 / 800.782.4670 or visit your nearest Allegacy Financial Center.

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This guide is intended to provide you with important information, tips, and resources for managing your debt; whether you have a mortgage, auto loan, credit card or other lending instrument. The guide is just that, one source of information. For further guidance with determining good debt from bad debt, please contact an Allegacy Representative or visit your nearest Allegacy Financial Center. Federally insured by NCUA. Equal Housing Lender.

EQUAL HOUSING LENDER