



# MoneySense™

Three easy steps  
to managing your  
money better



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MONEY  
MANAGEMENT

p30

RESPONSIBLE  
BORROWING

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HOME  
OWNERSHIP

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## About Emirates Foundation

Emirates Foundation is a UAE national foundation established to facilitate public-private partnerships to empower youth. Emirates Foundation was launched in April 2005 as an initiative from His Highness General Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the Armed Forces. In 2012, the Foundation was re-launched under the name "Emirates Foundation for Youth Development" as an integrated national initiative that seeks to invest in UAE youth. Its strategy uses the model of venture philanthropy to develop nationwide programmes that aim to impact the lives of UAE youth positively and permanently in a manner that is measurable and sustainable. The Foundation is chaired by HH Sheikh Abdullah bin Zayed Al Nahyan, Minister of Foreign Affairs, and focuses on delivering programmes on social inclusion, community engagement, and leadership and empowerment, including the 'Esref Sah' programme to address financial literacy.

For more information about Emirates Foundation, visit [www.emiratesfoundation.ae](http://www.emiratesfoundation.ae).

# About MoneySense

Dear Customer,

It's important to us that you understand how to effectively manage your finances. That's why we've created the 'MoneySense' financial responsibility programme, with support from the Emirates Foundation.

Developed with the aim of helping people like yourself who want to learn more about how to better manage money, MoneySense provides the necessary financial skills to build a strong foundation for future success.

This booklet contains information, tips and tools which are designed to deepen your understanding of the concepts and practically apply them to help you achieve your goals.

We hope you find the MoneySense booklet useful, and encourage you to share it with family and friends.

Sincerely,



Sonya Santolin

Sustainability Specialist



# Getting Started

Every section of this practical guide is organised with the following simple and easy-to-find headings:



## Did you know?

- ▶ AED 15 a day on cappuccino equals nearly AED 5,500 a year. Why not have a coffee at home instead
- ▶ Only 24% of UAE residents have saved enough to survive without a salary for 4 months<sup>1</sup>
- ▶ Only 26% of UAE residents save on a regular basis<sup>2</sup>
- ▶ A family with a savings plan will save about twice as much as the family that doesn't have one<sup>3</sup>
- ▶ You can deposit a fixed sum of money automatically into a designated account every salary cycle. Ask an ADCB representative how we can help



<sup>1</sup> The ASDA'A Burson-Marsteller Arab Youth Survey, 2010-2011.

<sup>2</sup> Arab Youth Survey 2010.

<sup>3</sup> Given identical incomes.

### Did you know?

- ▶ 42% of UAE residents don't know how to create a budget<sup>4</sup>
- ▶ Only 17% of UAE nationals regularly record their expenses<sup>5</sup>
- ▶ The average person spends money three times a day<sup>6</sup>



# Money Management

Learn about budgeting, the useful 'SMART' strategy and how to resist influences in your environment that encourage unplanned spending. We will answer the following questions:

- ▶ What is a budget and how do I create one?
- ▶ How do I ensure that income and expenses match short and long-term financial goals?
- ▶ What are 'SMART' goals?
- ▶ How do I make good financial decisions despite external pressures and influences?



## Section 1:

# Budgeting

## Introduction & Objectives

Budgeting helps you understand your finances and achieve financial goals. In this section, you will learn:

- ▶ What is a budget?
- ▶ Why is a budget useful?
- ▶ How to create a budget?

## Need to know

### ① What is a budget?

It's a list of income and expenses used to allocate money to activities within a specific timeframe.

### ② Why is a budget useful?

- ▶ Provides a clear picture of your financial future
- ▶ Prevents overspending, getting into too much debt, neglecting savings or not achieving financial goals
- ▶ Shows your spending habits
- ▶ Helps you resist external pressures, social media and advertising
- ▶ Helps develop greater financial discipline

### ③ How do I create a budget?

- ▶ Complete each of the sections in the Budget Worksheet on the next page
- ▶ Have receipts and bank statements on hand if possible
- ▶ Making the budget as detailed as possible makes it the most useful
- ▶ Expenses should be lower than income. Net income is what's left over after expenses and determines how much you can save
- ▶ Check if your expenses are "needs" or "wants"? Cut back on wants

## Tips

- ▶ Be patient and stick to your budget
- ▶ Pay yourself first by saving a fixed amount from income before spending anything. Use this towards your savings goals
- ▶ Dedicate a portion of net income to an emergency fund, debt reduction and/or "wants"
- ▶ The emergency fund is 3-6 months of your salary
- ▶ Visit [adcb.com](http://adcb.com) or speak with an ADCB representative to learn more about how our products and other solutions can help you with your money management



## Activities & Tools

### How do I create a budget?

INCOME	Amount (AED)
Salary	
Government allowances	
Bonuses	
Other <sup>7</sup>	
<b>Total Income (A)</b>	<b>(A)</b>
EXPENSES	Amount (AED)
<b>1. Pay Yourself First (B1)</b>	<b>(B1)</b>
SMART savings goal(s)	
<b>2. Home Expenses</b>	
Home Finance <sup>8</sup> / rent	
Association and/or maintenance fees	
Utility bills	
Home repairs	
Housekeeping staff	
Other	
<b>Total Home Expenses (B2)</b>	<b>(B2)</b>
<b>3. Transportation Expenses</b>	
Car payments	
Petrol/fuel	
Transportation (taxi, bus)	
Auto repairs	
Other	
<b>Total Transportation Expenses (B3)</b>	<b>(B3)</b>
<b>4. Health Expenses</b>	
Health insurance	
Medical emergencies	
Fitness (gym membership)	
Other	
<b>Total Health Expenses (B4)</b>	<b>(B4)</b>

### 5. Loan/Finance Payments (other than home)<sup>9</sup>

Credit cards	
Car loan/finance	
Personal loan/finance	
Other	
<b>Total Loan/Finance Payments (B5)</b>	<b>(B5)</b>

### 6. Other Expenses

School fees	
Groceries	
Clothing	
Entertainment	
Beauty services	
Vacations	
Dining out	
Other	
<b>Total Other Expenses (B6)</b>	<b>(B6)</b>

### 7. Financial Planning Expenses

Life insurance	
Higher education savings	
Retirement savings	
Other	
<b>Total Financial Planning Expenses (B7)</b>	<b>(B7)</b>

**TOTAL EXPENSES (B = B1+B2+B3+B4+B5+B6+B7)** (B) (AED)

**NET INCOME (C) = (Total A – Total B)** (C) (AED)

**NET INCOME / SAVINGS** Amount from (C) (AED)

Emergency fund	
Extra payments towards debts	
Other	

**Notes** \_\_\_\_\_

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<sup>7</sup> Examples of other income include gifts, dividends or investment returns.

<sup>8/9</sup> Check your Debt-Burden-Ratio (DBR). This is your ability to repay a loan/finance by comparing your income and debt. For e.g. a person who earns AED 40,000/month, paying a monthly loan/finance installment of AED 10,000, will have a DBR of 25%. In the UAE, DBR is capped at 50% by the Central Bank.



Section 2:

# 'SMART' Strategy

## Introduction & Objectives

Saving and setting 'SMART' goals are vital to building a solid financial foundation. In this section, you will learn:

- ▶ The importance of savings and setting saving goals
- ▶ To identify short and long-term financial goals
- ▶ How to ensure that your goals are 'SMART'

## Need to know

### ① Why are savings important?

By starting to save early and regularly, over time you will build the base to achieve your financial goals

Unexpected expenses <b>Prepare for setbacks and opportunities.</b>	Living the dream <b>Make your dreams a reality.</b>	Financial independence <b>Peace of mind.</b>	Self-confidence <b>Success as you see it.</b>
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### ② Why set savings goals?

- ▶ Goals are a tool to effectively manage and structure savings
- ▶ The 'SMART' saving strategy creates a clear picture of your future

### ③ What is a 'SMART' goal?

Each letter in 'SMART' stands for a feature of good financial goals:

#### Specific

- ▶ Specific goals answer the five 'W' questions:
  - ▷ Who is involved?
  - ▷ What do you want to accomplish?
  - ▷ Why are you pursuing these goals?
  - ▷ Where will it be done?
  - ▷ Which requirements and constraints exist?

#### Measurable

- ▶ Good goals can be tracked and measured when these questions are answered:
  - ▷ How much?
  - ▷ How many?
  - ▷ How will I know when it is accomplished?

#### Achievable

- ▶ An achievable goal will answer these questions:
  - ▷ How can the goal be accomplished?
  - ▷ How realistic is the goal based on existing limitations?

#### Realistic

- ▶ A goal is realistic when 'yes' is the answer to these questions:
  - ▷ Does this effort seem worthwhile?
  - ▷ Is this the right time?
  - ▷ Does this match my other "needs"?
  - ▷ Can I afford it?

#### Time-bound

- ▶ A time-bound goal will usually answer these questions:
  - ▷ When?
  - ▷ What can I do six months from now?
  - ▷ What can I do six weeks from now?
  - ▷ What can I do today?
- ▶ Ask if a 'SMART' goal is a "NEED" or a "WANT". "Needs" come first.

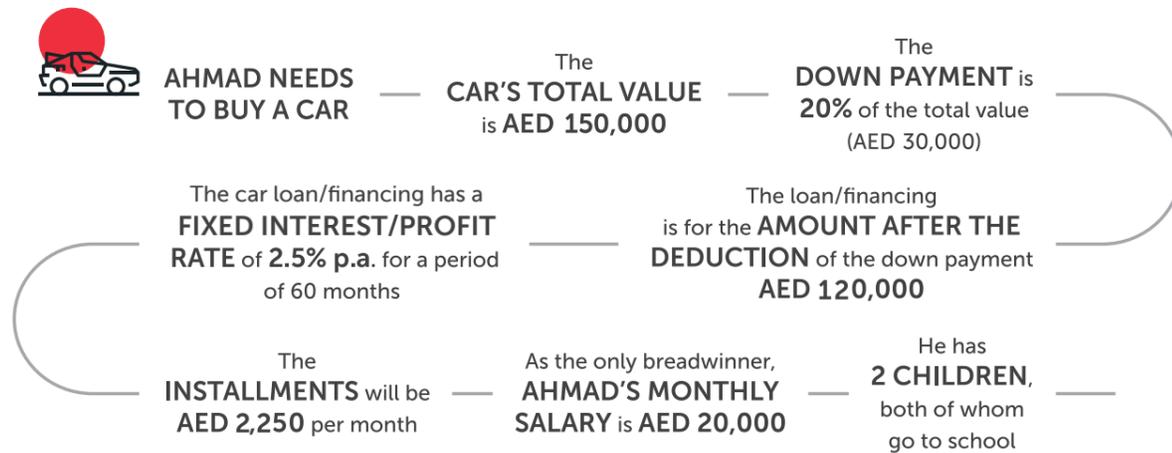
**"IF YOU AIM AT NOTHING, YOU WILL HIT IT EVERY TIME"** - Zig Ziglar

Goals give you a target and 'SMART' goals help you hit the bullseye.

## Activities & Tools

### Case Study: Is Ahmad's goal 'SMART'?

Use the 'SMART' strategy to determine if Ahmad's goal is 'SMART'.



- ▶ Calculate Ahmad's budget using the Budget Worksheet on page 12
- ▶ Is Ahmad's goal to buy this car 'SMART'?
- ▶ 'SMART' reminder:
  - ▷ Is the goal Specific? ▷ Is the goal Measurable? ▷ Is the goal Achievable?
  - ▷ Is the goal Realistic? ▷ Is the goal Time-bound?
- ▶ What would you recommend?

### Tips

- ▶ Put a small percentage of your monthly salary aside for an emergency fund. Increase it as net income allows until you have 3-6 months of salary saved. Only use the fund for emergencies
- ▶ Saving is a great tool, but dormant money can be put to better use
- ▶ Consider which ADCB products and tools can help you achieve your goals
- ▶ Look out for Emirates Foundation's weekly saving tips on Twitter, Instagram and Facebook. Search @esrefsahEF
- ▶ Visit [adcb.com](http://adcb.com) or speak with an ADCB representative to learn more about how our products and other solutions can help you with your money management



### Where can you save?

Use the Adjusted Savings Worksheet below to see where you can reduce expenses and increase savings.

- ▶ List recent expenses
- ▶ Consider which ones you can realistically reduce or eliminate
- ▶ Estimate the revised expenses
- ▶ Calculate the total possible savings: Savings equals (Total A) – (Total B)

Expense Item	Expense Amount (AED)	How can you reduce this?	Revised Amount? (AED)
Dinner	AED 650	Eat out less frequently	AED 300
	TOTAL A		TOTAL B

TOTAL POSSIBLE SAVINGS = TOTAL A – TOTAL B = AED \_\_\_\_\_

Notes \_\_\_\_\_

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Section 3:

# Handling External Pressures, Social Media and Ads

## Introduction & Objectives

The desire to live a life of luxury & excess is amplified by social media and advertising. They can significantly influence your spending habits, so you must learn how to resist them. In this section, you will learn:

- ▶ About the influence of external pressures and their impact on financial behaviour
- ▶ The techniques to resist these pressures and prevent impulse buying

## Need to know

### ① How can external pressures influence spending?

- ▶ Temptation to buy new products is normal, but spending beyond your means is a bad habit
- ▶ Social media has created a culture of competition that can lead to trying to impress friends
- ▶ Advertising is geared to influence your spending. Ask yourself if you need it and consider that ads don't always provide detailed information
- ▶ Keep financial goals in mind to help you resist impulse buying and peer pressure
- ▶ Awareness leads to empowered and informed choices

### ② What are some tools or techniques to help resist these pressures and influences?

- ▶ Ask yourself:
  - ▷ Is this something I "need" or "want"?
  - ▷ Have I allocated funds in my budget for this?
  - ▷ Can I afford it?
  - ▷ Is there a better way to spend this money, like paying debt?
  - ▷ Can I delay the purchase and plan for it later as a 'SMART' goal?
  - ▷ If it's not a need or a 'SMART' goal, is it a responsible choice?
- ▶ Look at advertisements with a questioning eye, especially ads for financial products
- ▶ Is any information missing?
- ▶ Get all the necessary information
- ▶ Consider speaking to an ADCB representative for assistance to determine if this cost fits your budget and aligns with your 'SMART' goals
- ▶ These questions are even more important when borrowing to purchase non-essentials

## Tips

- ▶ View content that doesn't encourage consumption, like education or general knowledge
- ▶ You can save on bills and limit time on social media by using a mobile phone package with limited data
- ▶ Managing social media wisely is healthier. Stress levels increase with your number of friends on social media<sup>10</sup>
- ▶ Consider your privacy. Everyone at school or work doesn't need to be your online 'friend'



<sup>10</sup> Study by Dr. Hanna Krasnova, Humboldt University, Berlin, Germany.

## Activities & Tools

### Social Media Advertisements

- ▶ Scroll through the newsfeed of any of your social media accounts and ask yourself:
  - ▷ What kind of images do I see?
  - ▷ What kind of images are friends and followers posting?
  - ▷ What messages do the images and ads send?
  - ▷ What feelings are produced by these images and ads?
  - ▷ Do they make me want to spend?
  - ▷ Is this something that I “need” or “want”?
  - ▷ Regarding ads, what product information is given or missing?
  - ▷ Is this purchase a ‘SMART’ goal?
  - ▷ What are the financial implications of buying?
  - ▷ Have I budgeted for this?



### Know Your Social Media Accounts

- ▶ Make awareness your first step. Ask yourself:
  - ▷ Which social media accounts do I have and what kind do I follow?
  - ▷ Has a friend ever posted a photo from a new restaurant? How did it make me feel? Did I feel like trying the same dish or going to the same restaurant?
  - ▷ How would I feel if it was pictures of a new house, designer handbag, new car or vacation?

## Did you know?

- ▶ People spend up to 3½ hours a day on social media in the UAE <sup>11</sup>
- ▶ Over 5.4 million people in the UAE are active on social media <sup>12</sup>
- ▶ 91% of all retail brands advertise on two or more social media channels <sup>13</sup>
- ▶ Every second, 12 people open a new social media account <sup>14</sup>
- ▶ Social media has created the “envy spiral effect” where people beef up their profiles to compete with others. This creates a vicious cycle which affects money management behaviours <sup>15</sup>



### Notes

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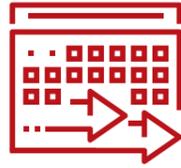
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<sup>11</sup> <http://www.globalmediainsight.com/blog/uae-social-media-statistics/>

<sup>12</sup> Global Media Insight 2015.

<sup>13/14</sup> PEW Research Center, 2014 Social Media Study.

<sup>15</sup> Study by Dr. Hanna Krasnova, Humboldt University, Berlin, Germany.



## Section 4:

# Planning for the Future

## Introduction & Objectives

There's no age limit when it comes to planning for the future. In fact, the earlier you start the better. In this section, you will learn how good financial habits and skills can help prepare you and your children for tomorrow, ten years from now and beyond. In this section, you will learn:

- ▶ About retirement planning
- ▶ Different types of investments
- ▶ Future-proofing through insurance products
- ▶ Helping your kids to be money-wise

## Need to know

### ① What is a retirement plan?

- ▶ A retirement plan is an essential tool for you to have the desired income or a target amount when you retire from the workforce
- ▶ Your ability to reach this income/target amount will be based on a few factors like:
  - ▷ Amount of regular savings over the years
  - ▷ Ideal retirement age
  - ▷ Inflation
  - ▷ Home ownership status
  - ▷ Health & long-term care insurance requirements
  - ▷ Desired retirement lifestyle
- ▶ A number of financial products allow investment on a regular basis. They typically offer many benefits, including flexibility to adjust your contribution in line with personal financial conditions and the potential to generate more

than conventional savings, such as a savings account. This is done through a disciplined long-term, balanced investment approach that helps you beat the rate of inflation and avoid erosion of your accumulated wealth value

- ▶ The earlier you start your retirement planning, the lower the contribution commitment you have to take out of your monthly disposable income
- ▶ It is highly recommended to seek the guidance of an expert financial advisor, and draw up a formal Financial Plan. Speak to an ADCB representative to learn more about how to make your dreams of a happy retirement become a reality

### ② When should I invest and what is the ideal investment horizon?

- ▶ Investing your money smartly can help you to reach your long-term goals and achieve your personal wealth dreams, rather than letting net income savings sit dormant in your account
- ▶ Investing should only really happen after:
  - ▷ you have your finances in order,
  - ▷ your spending is managed effectively, and
  - ▷ you find that you have spare cash left over at the end of each monthOtherwise, you may be at risk of getting into financial difficulties
- ▶ The time you remain invested will determine how well you get rewarded, so when you invest, do so for the medium to long-term, not for a quick profit
- ▶ Typically, higher potential returns come with higher risks, and vice versa. Understanding your risk profile is essential to choosing the right investment for you
- ▶ Investing can be a complicated field. Talking with a financial expert, such as your ADCB Relationship Manager, is highly recommended

### ③ What different types of investments exist?

- ▶ Once you are ready to invest, numerous types of investments can be considered:
  - ▷ **Stocks** represent an equity ownership in a business. They can potentially offer higher returns over the long term, but they come with no guarantees and carry the risk of loss
  - ▷ **Bonds** are considered more stable than stocks but come with lower possible returns. They are essentially a loan made to a corporation or government and typically come with some guarantee from the issuer (borrower)

- ▷ **Short-term investments** include money market funds and short-term certificates of deposit. Money market funds are stable with lower returns, but offer easy access to your money
- ▷ **Managed funds** are managed by professionals, who decide for you on what to buy, hold or sell. Funds come in many varieties, some focus on stock or bonds while others hold some combination of the two
- ▷ **Property investment** (other than home ownership) can provide a profitable return through rental income and property value appreciation. Bear in mind though that this may also carry financial burdens such as landlord commitments and responsibilities, maintenance costs and market impact on property values and rentals
- ▶ Understanding your risk profile can help you choose the right investment for you. Visit [adcb.com](http://adcb.com) to use our Risk Profile Tool

#### 4 How can insurance solutions help me with my future planning?

- ▶ Life rarely goes according to plan and unexpected changes in health, job status, dependents, or unplanned repairs can disrupt even the most sensible of monthly budgets and long-term goals
- ▶ There are a few simple tactics that can help reduce the adverse impact of life's unforeseen events while you focus on securing your own as well as your family's bigger dreams:
  - ▷ **Emergency fund savings** create a buffer against unexpected financial demands. As a general rule, the emergency fund should be 3-6 months of your salary. Keep this money in a product which allows you to access it on short notice without penalty, such as a simple savings account
  - ▷ **Critical illness and life insurance** cover ensures a steady flow of income and/or lump sum in the event that you become unable to work (or lead your normal life) due to illness or injury. These types of insurance should not to be confused with health insurance which essentially covers the expenses of medical treatment
  - ▷ **Consumer credit** products may offer a protection scheme, such as job loss insurance benefit whereby your debt repayments are taken care of by the insurance provider for a defined period of time. Check the terms and conditions
  - ▷ **Home and/or household contents insurance** offers protection against unexpected hazards that might lead to damage, loss or theft of your home contents, and helps offset replacement or repair costs

- ▷ **Motor insurance** can help manage unexpected accidental-related expenses associated with your vehicle. Motor insurance is a mandatory requirement by law prior to car registration. While many leading automotive dealers offer free motor insurance during the first year, thereafter it can become a major annual budget expense which you need to provide for

#### 5 When is the right time to teach kids about money?

- ▶ In the great words of Abraham Lincoln, "Teach the children ... so it will not be necessary to teach the adults"
- ▶ Good money habits adopted early in age have a better chance to stay with your kids into adulthood

# 5

By age five they should know:

- ▶ Money is necessary for buying things
- ▶ Money is earned by working
- ▶ Sometimes you must wait to to buy things you want
- ▶ There is a difference between "wants" and "needs"
- ▶ What a bank is and what money looks like

# 10

By age ten they should know:

- ▶ The concept of saving
- ▶ The basics of interest and forms of money (cash, cheque, debit and credit cards)

# 15

By age fifteen they should know:

- ▶ About financial responsibility, like paying/ monitoring their mobile phone bill
- ▶ How much things cost
- ▶ Credit cards shouldn't be used without having the cash to pay them off
- ▶ Money can either help or hinder their dreams

## Activities & Tools

### Saving for Long-Term Goals

Use the table below to make a note of your long-term goals, the total amount you'll need to save and how long you'll need to save this amount. Also make a note of the amount and frequency of the saving – i.e. whether you save monthly, weekly or every quarter and how much for each period

Goal	Total amount	Saving frequency	Savings per period	Duration
<i>Kid's college fund</i>	<i>AED 120,000</i>	<i>Monthly</i>	<i>AED 1,000</i>	<i>10 years</i>

### Did you know?

- ▶ Some studies have shown that financial habits take root from as early as age seven
- ▶ Consistently saving regular and reasonable sums each month is better than saving occasional lump sums
- ▶ Consistent, reasonable, regular investment amounts/ payments protect against market fluctuations
- ▶ You can allocate your regular contributions to a managed investment strategy to help you achieve targeted growth rates



## Tips

- ▶ A direct debit or standing order is a good way to regularly pay into a plan
- ▶ Begin a college fund when your child is young. It will be easier to accumulate a substantial sum
- ▶ Look for portable international savings solutions that you can access anywhere in the world
- ▶ Don't risk more than you are comfortable with and understand your investment timeline
- ▶ Review your plan regularly (once a quarter or every 6 months at least) for necessary investment switches
- ▶ Consider whether your savings plan allows you to increase or decrease the contribution or allows a premium holiday
- ▶ Visit [adcb.com](http://adcb.com) to use our Risk Profile Tool. Speak with an ADCB representative to learn more about how our products and other solutions can help you with your money management



## Strategy Checklist

You've learned essential principles of money management, and should now consistently put them into practice. Use the list below to help keep developing your money management skills and knowledge.

Checklist	Y	N
Have you created a budget?	<input type="checkbox"/>	<input type="checkbox"/>
Are you sticking to the budget?	<input type="checkbox"/>	<input type="checkbox"/>
Do you review it regularly?	<input type="checkbox"/>	<input type="checkbox"/>
Have you set savings goals?	<input type="checkbox"/>	<input type="checkbox"/>
Do you use the 'SMART' system to set your goals?	<input type="checkbox"/>	<input type="checkbox"/>
Have you started an emergency fund?	<input type="checkbox"/>	<input type="checkbox"/>
Do you know how much the emergency fund should be?	<input type="checkbox"/>	<input type="checkbox"/>
Have you 'paid yourself first' each month?	<input type="checkbox"/>	<input type="checkbox"/>
Have you set long-term investment goals?	<input type="checkbox"/>	<input type="checkbox"/>
Do you review your long-term investment goals regularly?	<input type="checkbox"/>	<input type="checkbox"/>
Do you have a retirement plan?	<input type="checkbox"/>	<input type="checkbox"/>
Does your long-term planning include suitable insurance options?	<input type="checkbox"/>	<input type="checkbox"/>
Are you teaching your kids about money management?	<input type="checkbox"/>	<input type="checkbox"/>

Notes \_\_\_\_\_

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## Did you know?

- ▶ Using a credit card to withdraw money from an ATM often attracts high charges and a high interest/profit rate
- ▶ Credit cards usually have higher interest/profit rates than other forms of credit, like personal loans/financing
- ▶ In most countries around the world, student loans/financing are up to 40% of a person's entire debt. UAE nationals enjoy free education from primary through to higher education. How can you benefit from the savings?
- ▶ Established in 2012, a credit reference bureau ensures that anyone in the UAE who wants to borrow will have their credit history checked, including credit cards, car payments and personal finances. Find out more at [www.aecb.gov.ae](http://www.aecb.gov.ae)



# Responsible Borrowing

Whether you're taking out a loan/financing or want to learn how to manage the ones you have, it takes discipline, planning and being well informed. We will answer the following questions:

- ▶ What is credit?
- ▶ What types of credit products are there?
- ▶ What tools and strategies can be used to manage debt and become a more responsible borrower?



Section 1:

# Borrowing Money and Types of Loans/Financing

## Introduction & Objectives

Borrowing can be a necessary part of the 'SMART' approach but you must be well informed. In this section, you will learn:

- ▶ The different types of credit products available
- ▶ Why a loan/financing is important
- ▶ Is it good debt or bad debt?
- ▶ About appropriate borrowing, how to borrow and how to manage debt responsibly
- ▶ The advantages and disadvantages of each type of loan/financing product

## Need to know

### ① What different types of credit products exist?

Borrowing takes several forms including the following:

- ▶ Credit cards
- ▶ Car loans/finance
- ▶ Personal loans/finance
- ▶ Educational loans/finance
- ▶ Home financing
- ▶ Bank overdraft

### ② Why are loans/financing important?

- ▶ Loans/financing allow you to buy expensive items without having all the required funds up front
- ▶ Most commonly used for items like cars, homes or an education

### ③ Are all loans/financing bad?

- ▶ No. Some debt is good, like when education loans/financing lead to better jobs or higher salaries
- ▶ A home loan/financing is good when the property value increases over time
- ▶ Credit cards or overdrafts are good if managed properly as part of the 'SMART' approach
- ▶ The key is to borrow responsibly:
  - ▷ Always determine if you're spending on a need or want
  - ▷ Keep the 'SMART' approach in mind
  - ▷ Borrow only the amount you need
  - ▷ Ensure the repayment installments are affordable
  - ▷ Make repayments on time
  - ▷ Always include debt payments in your monthly Budget Worksheet (see page 12)
  - ▷ Don't borrow to fund a lifestyle you cannot afford

### ④ What are the advantages and disadvantages of loan/financing products?

- ▶ Home finance is better for purchasing a home, as personal loan/financing or credit cards have higher borrowing costs
- ▶ Always shop around for the best interest/profit rate and ensure that the loan/financing suits your specific need
- ▶ Borrowing helps establish good credit with disciplined repayment. This can affect your ability to borrow

## Activities & Tools

### Know the Borrowing Options

Review the Borrowing Options Worksheet below.

- ▶ Do you understand the differences between the types of loans/financing?
- ▶ What are the benefits and drawbacks of each?

Borrowing Product	Advantages	Drawbacks
Credit cards		
Car loans/financing		
Personal loans /financing		
Educational loans/financing		
Home loans/financing		
Overdraft		

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### Did you know?

- ▶ 70-80% of debt among UAE nationals is for luxuries rather than "needs"<sup>16</sup>
- ▶ It's considered acceptable to use 5-10% of income on planned credit repayments (excluding home finance). Consider steps to reduce anything higher than this percentage
- ▶ Credit cards are useful tools with disciplined repayment. Features like air miles are beneficial if they suit your lifestyle

### Tips

- ▶ A Flat Rate is the borrowed amount, multiplied by the interest/profit rate and term, e.g. the total interest/profit for an AED 20,000 loan/financing over 4 years at a flat 10% per annum is AED 8,000. The total payment is AED 28,000
- ▶ The interest/profit of a Reducing Rate is calculated against the total debt owing after each payment. It's considered better value than a flat rate, but it's best to do research
- ▶ Determine the full amount to be repaid over the entire term of a loan/finance. You must understand the difference between the amount borrowed (principal) and the interest/profit
- ▶ Visit [adcb.com](http://adcb.com) or speak with an ADCB representative to learn more about how our products and other solutions can help you with your money management



<sup>16</sup>The ADSA'A Burson-Marstellar Arab Youth Survey 2010-2011.



Section 2:

# Managing Loans/ Financing and Payments

## Introduction & Objectives

When borrowing money, it's best to do proper research, and if you've already borrowed money, manage it wisely. In this section, you will learn:

- ▶ About the importance of timely debt repayment
- ▶ Strategies for effective debt management
- ▶ How to use a budget as a tool to manage debt

## Need to know

### ① Why is it important to repay debt on time?

- ▶ Missed payments attract penalty fees and can rapidly spiral out of control
- ▶ The golden rule: never miss a payment and pay at least the minimum on time
- ▶ If possible, pay more than required

### ② What are some tools for effective debt management?

- ▶ **Budgeting** – This must include a disciplined monthly debt payment and savings plan
- ▶ **Pay yourself first** – Save a fixed sum of your income every month before making any other payments
- ▶ **Aim for early repayment** – Use extra net income to pay off outstanding debts early

### ▶ **Prioritise debts** –

- ▷ Prioritise debts with higher interest/profit rates
- ▷ Prioritise small debts
- ▷ Create a consistent repayment plan

It's never too late to gain control over debt.

## Activities & Tools

### How to use a budget to help manage debt

- ▶ Look at your Budget Worksheet (on page 12) to see if you can use Net Income towards early debt repayment

Notes \_\_\_\_\_

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## Tips

- ▶ Settle credit card debt within the interest-free period to avoid high interest penalties
- ▶ Create a 'SMART' goal to save money for down payments on big purchases, like a car or home. The larger the down payment, the less interest accrued
- ▶ Visit [adcb.com](http://adcb.com) or speak with an ADCB representative to learn more about how our products and other solutions can help you with your money management



## Section 3:



# Being Responsible with Debt

## Introduction & Objectives

Now that you understand when and what type to borrow, and have learned some tools to manage borrowed money, it's important to understand how to be responsible with debt. In this section, you will learn:

- ▶ How to manage consumer credit responsibly
- ▶ Some essential steps to get back on track if you run into debt problems

## Need to know

### ① How can I manage my consumer spending responsibly?

- ▶ Your goal is to have net income at the end of each month (your income should exceed your expenses). The key to achieving this is to keep spending below your income
- ▶ Use the Budget Worksheet on page 12 to help you accurately record how much you spend between each salary, and where that money goes
- ▶ As much as possible, plan ahead for large purchases and make them from your savings. Make sure to check if the item being purchased is a "want" or a "need"
- ▶ If you decide to take out credit, consider the following strategies:
  - ▷ Carefully choose the credit product – your underlying need will guide you to select the right product. Also consider interest rate, charges and fees
  - ▷ Get informed about the full amount that you will need to pay back over the entire term of the loan, including principal and interest

- ▷ Compare credit product terms and conditions including rates, benefits, repayment structure, penalties and so on. These differences can reduce the overall cost of the loan/finance
- ▷ Be careful not to use new credit to cover existing credit payments as this will increase the cost of borrowed funds and can create difficulties, especially if it carries a higher rate of interest. Speak to an ADCB representative to help find a solution that works for you
- ▷ Remember to include the credit repayments in your budget and make sure it's affordable
- ▷ Be careful not to use credit to finance a lifestyle or create the illusion of a lifestyle you cannot afford

### ② What do I do if I run into debt problems?

Managed properly, consumer credit can play a big part of good money management. But, should you run into difficulties, consider the following strategies:

- ▶ Don't bury your head in the sand; recognise there is a problem and ask an ADCB representative for assistance
- ▶ Prioritise your debts to repay those with the highest rate of interest first
- ▶ Prioritise your debts to repay those that do not carry penalty fees for clearing a debt early
- ▶ Find ways to reduce your expenses such as a more affordable accommodation, energy savings strategies, switching to less expensive brands, etc.
- ▶ An ADCB representative can help you to find a financial solution that can work for you

## Activities & Tools

### How to Reduce Expenses

Use the chart below to calculate what expenses can be reduced and how.

Item	Monthly Cost (AED)	Reduction strategy	New Cost (AED)	Savings
ADDC	400-500	Water filter, low energy light bulbs	300-400	XXX

### Tips

- ▶ Remember to settle your credit card spends within the interest-free period to avoid incurring debt costs, which can be extremely high
- ▶ Cut back on the 'luxuries' first, but look at all expenses and make sensible changes across the board
- ▶ Switch to less expensive brands, eat out less, book a cheaper holiday
- ▶ Sell unwanted items. The amount you raise, no matter how small, adds to your income
- ▶ Save on energy bills by getting low energy bulbs and appliances
- ▶ Monitor use of mobile data packages
- ▶ Cancel unnecessary commitments, like gym memberships, that you rarely use
- ▶ Visit [adcb.com](http://adcb.com) or speak with an ADCB representative to learn more about how our products and other solutions can help you with your money management



### Did you know?

- ▶ Credit cards often have a higher interest rate than other forms of credit, such as a personal loan
- ▶ When travelling abroad, cash is cost effective but credit cards can be more secure because they often cover problems like theft or loss
- ▶ Credit cards often charge for overseas transactions
- ▶ Using your debit card in another bank's ATM machine often attracts charges
- ▶ Defaulting on debt in the UAE can lead to fines or imprisonment and may make getting a job difficult



### Strategy Checklist

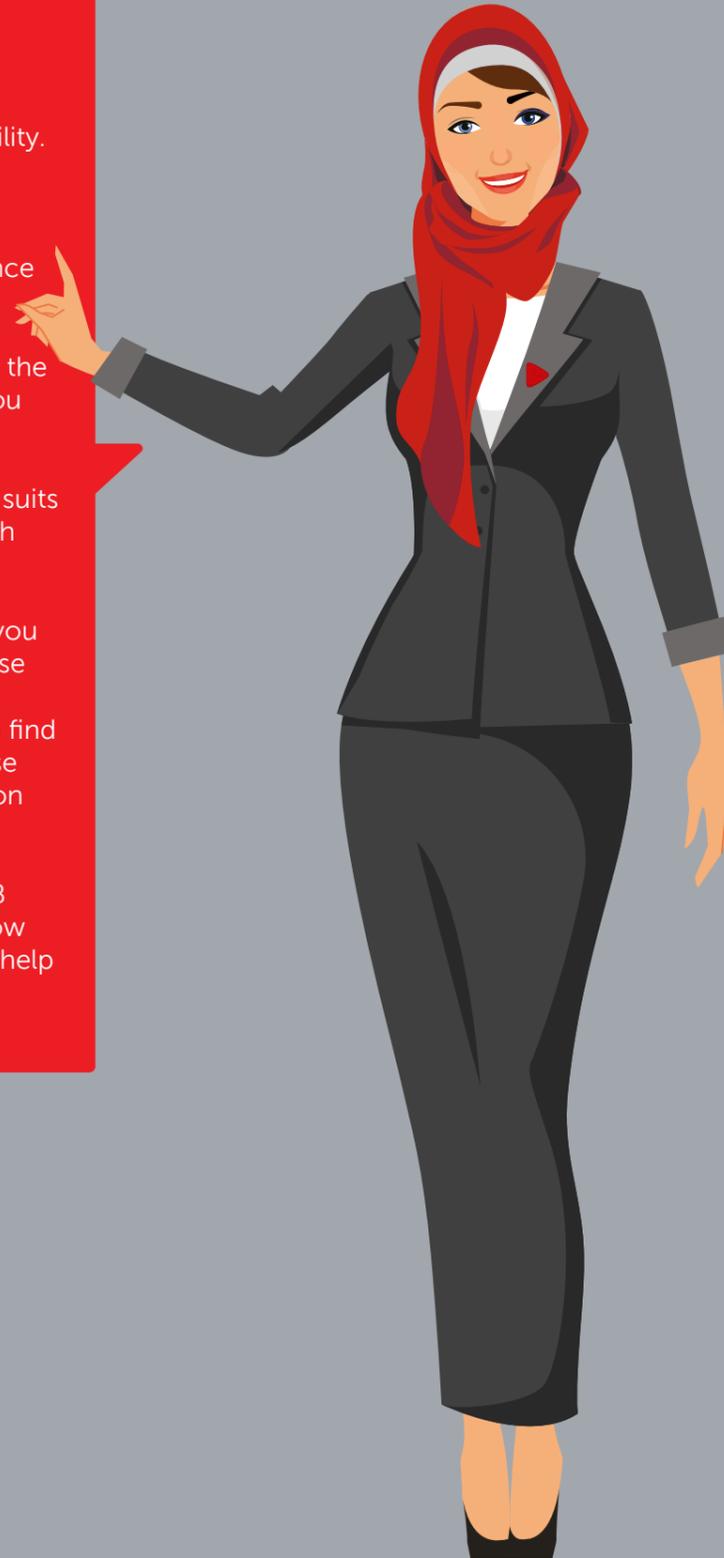
You've learned essential principles of money management regarding borrowing money, and should now consistently put them into practice. Use the list below to help keep developing your money management skills and knowledge.

Checklist	Y	N
Am I spending less than I earn?		
Is my account balance growing each month?		
Have I considered what expenses can be reduced (see the How to Reduce Expenses chart)?		
Have I prioritized my debt repayments?		
Do my credit card benefits work for me?		
Did I pay off my credit card spends?		

Notes \_\_\_\_\_  
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## Tips

- ▶ The most important factor is affordability. Consider this carefully
- ▶ 25-30% of your income should go towards housing, whether home finance or rent
- ▶ Your first purchase doesn't have to be the dream home, but its value can help you get there
- ▶ Decide what type of accommodation suits your needs. Villas and apartments each have pros and cons
- ▶ Determine how much home finance you qualify for before settling on a purchase
- ▶ A good real estate agent can help you find an ideal home, assist with the purchase process and protect you from common pitfalls
- ▶ Visit [adcb.com](http://adcb.com) or speak with an ADCB representative to learn more about how our products and other solutions can help you with your money management



# Home Ownership

There's great value in home ownership and it can create future financial security. We will answer the following questions:

- ▶ What are the advantages and disadvantages of home ownership?
- ▶ How will I know if I'm ready to buy a home?
- ▶ How do I go about the home buying process?



## Section 1:

# Considering the Possibility of Home Ownership

## Introduction & Objectives

Home ownership is a great privilege and responsibility. You must carefully consider cost, affordability, housing and living expenses as well as how long you plan to live in the home. In this section, you will learn:

- ▶ Key home financing terminology
- ▶ The benefits and challenges of home ownership: renting vs buying
- ▶ The real costs of home ownership
- ▶ If you're ready to purchase your first home

## Need to know

### ① What Key Home Financing Terminology do I need to know?

- ▶ **Home finance:** A legal contract promising to repay the loan/finance plus interest/profit and other costs. The home is collateral for that loan/finance. If the debt is not repaid, the lender can claim the property and sell it to cover the outstanding debt
- ▶ **Debt-Burden Ratio (DBR)<sup>17</sup>** : The ability to repay a loan/finance by calculating the ratio of the debt burden relative to income. For e.g. a person with an income of AED 40,000 per month, who pays AED 20,000 in monthly loan/finance installments, will have a DBR of 50%

<sup>17</sup>In the UAE, DBR is capped at 50% by the Central Bank.

- ▶ **Net Income:** Regarding salary, it's the amount earned after all deductions by your employer. For a budget, it's the amount remaining after deducting all expenses

### ② What are the benefits and challenges of home ownership?

- ▶ **Benefits:**
  - ▷ The acquisition of an asset which may appreciate in value over time
  - ▷ Freedom to design your home as you wish
  - ▷ Saving on rent
- ▶ **Challenges:**
  - ▷ A large initial financial investment for the down payment
  - ▷ A significant debt for a long period of time
  - ▷ Restricted mobility due to living in one location

### ③ What are the real costs of home ownership?

- ▶ Monthly home finance repayments
- ▶ Maintenance and association fees
- ▶ Utilities (electricity, water, gas, internet, etc.)
- ▶ Furnishing costs
- ▶ Landscaping and other finishing requirements
- ▶ Insurance
- ▶ Unexpected damage and repairs

## Activities & Tools

### Understanding Home Ownership

- ▶ Use the Understanding Home Ownership Worksheet below to determine if you're ready to own a home
- ▶ Ensure the points are relevant to your circumstances
- ▶ Determine whether buying or renting meets your personal goals
- ▶ Explore alternative housing options
- ▶ Determine how long you intend to remain in the home

Advantages of home ownership	Advantages of renting

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### Did you know?

- ▶ In the UAE, the minimum down payment is 20%. It may be lower or higher in certain circumstances. This makes it possible to buy a house primarily with home financing instead of cash
- ▶ Home ownership increases long-term wealth versus renting. While value can fluctuate over time, the key is increased long-term value
- ▶ 8 out of 10 UAE residents want to buy property in the UAE<sup>18</sup>



<sup>18</sup> Report issued by compareit4me.com, November 2015.



## Section 2:

# Home Ownership Step-by-Step

## Introduction & Objectives

The buying process from pre-qualification through to getting the keys to your new home can be lengthy and complicated. In this section, you will learn:

- ▶ What to consider before buying a home
- ▶ The steps of the home buying process in two possible scenarios

## Need to know

### ① What does the home buying process involve?

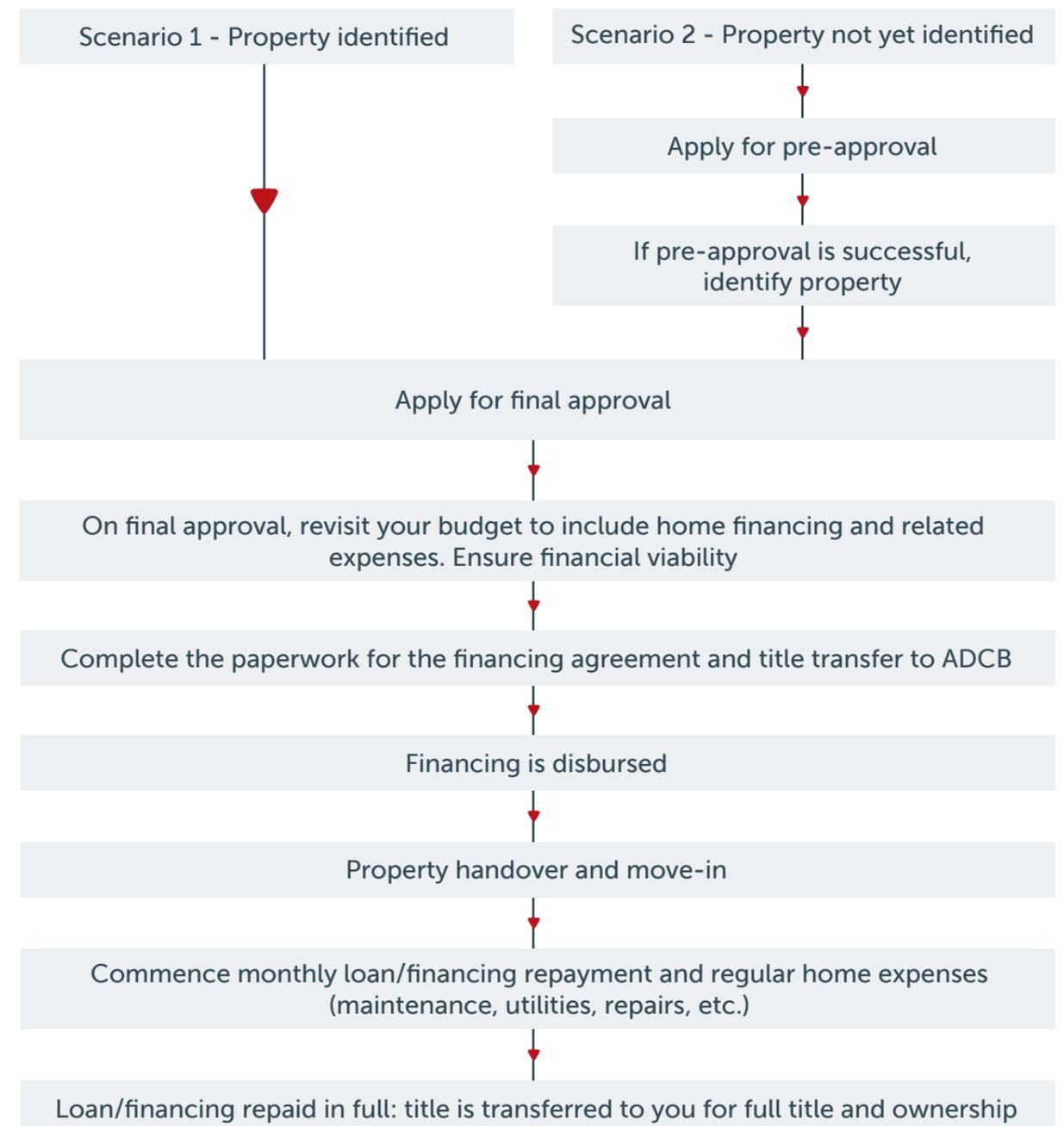
- ▶ It's a complicated and sometimes lengthy process
- ▶ Don't assume that you can or cannot afford to buy a house
- ▶ Get a range of quotations from a variety of lending institutions

Pre-considerations:

- ▷ Determine if it's the right time to buy
- ▷ Is it for self-occupation or investment purposes? Costs vary greatly for each
- ▷ Confirm eligibility. Our team can help with this
- ▷ Considering financial viability. Can you afford the down payment and the monthly installments?

### ② What are the key steps in the home buying process?

Refer to the chart below to understand the process for two common scenarios:



## Activities & Tools

### Budget Worksheet

Refer to your Budget Worksheet (on page 12) to understand your financial position and whether you are ready for home ownership.

### Did you know?

- ▶ 88% of homeowners in the UAE report a positive buying experience<sup>19</sup>
- ▶ 77% of homeowners in the UAE say owning a home has helped them achieve their financial goals<sup>20</sup>
- ▶ There are many advantages to home ownership (see previous section)

### Tips

- ▶ Agree on a home inspection as a precondition of purchase. If undisclosed flaws are found, the offer can be rescinded and the deposit returned. It may also be possible to negotiate repairs or a reduction of the price
- ▶ Get a range of quotes from a variety of banks before committing to home finance
- ▶ Be aware of hidden processing fees
- ▶ Pay lump sums when possible to reduce the principal owed. Ensure there are no penalties for doing this
- ▶ Ensure home payments are made regularly and take priority. A history of late payments may hurt your credit rating
- ▶ Visit [adcb.com](http://adcb.com) or speak with an ADCB representative to learn more about how our products and other solutions can help you with your money management



## Strategy Checklist

You've learned essential principles of money management regarding home ownership, and should now consistently put them into practice to help you keep developing your money management skills and knowledge. Use the list below to help.

Checklist	Y	N
Have I completed the Home Ownership worksheet?		
Do I know my Debt-Burden Ratio?		
Have I determined the purpose of home ownership?		
Have I shopped around for the best home finance?		
Can I afford the down payment?		
Have I researched hidden fees? Do I understand the full costs of home ownership?		
Do I know how much home financing I qualify for?		
Can I afford the monthly payments?		

### Notes

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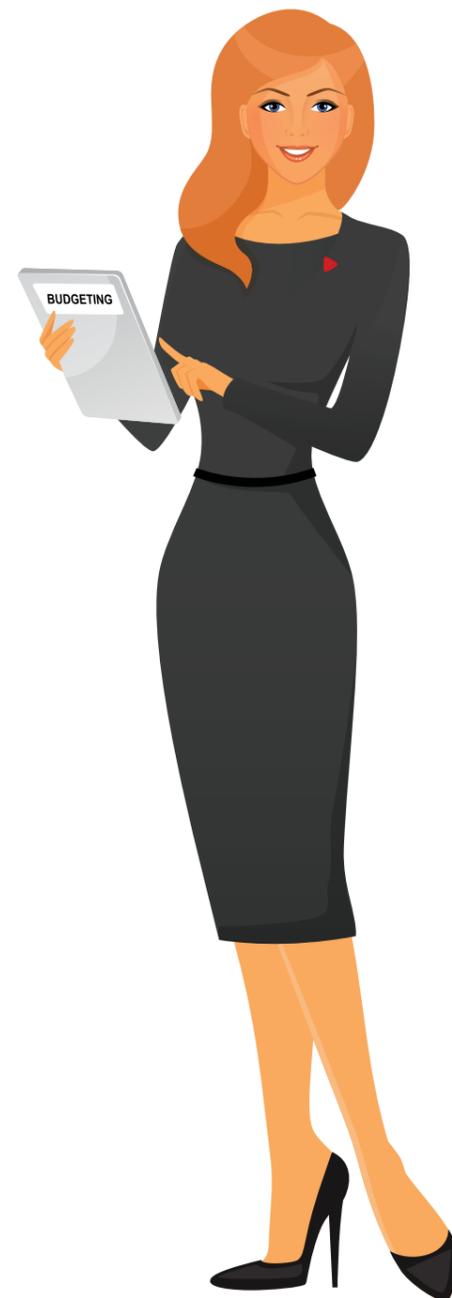
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# Final Words

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ADCB would like to extend our most sincere appreciation and gratitude to His Highness Sheikh Khalifa bin Zayed Al Nahyan, the UAE President and Ruler of Abu Dhabi, to His Highness Sheikh Mohammed bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces, to His Highness Sheikh Mansour bin Zayed Al Nahyan, Deputy Prime Minister and Minister of Presidential Affairs, and to the UAE Central Bank.

In recognition of their wisdom, guidance and encouragement, ADCB has developed MoneySense, with the support of the Emirates Foundation, and as a responsible bank aims to contribute to the important social role that sound financial money management plays towards developing a sound economy.

We would also like to extend a special note of thanks to the Emirates Foundation for its support.

Lastly, ADCB thanks you for your genuine interest to pro-actively learn how to navigate your personal and professional finances, and enrich your lives through knowledge that can enhance your financial well-being.

Abu Dhabi Commercial Bank

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