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### Financial Literacy: Understanding the Language of Money

Growing up I always heard this phrase “money talks”, and it wasn’t until I was in my mid-twenties that I finally understood what that meant in terms of money speaking or having some form of language. I discovered that depending on how a person listens, money will say whatever you want to hear. Money speaks in such a way that it is only audible to the ear that can decipher its message or what it is expressly saying to that individual. Another interesting thing that I discovered about money is that it has no emotions or feelings, and it has no favorites, but it can make you happy one moment and sad the next. It can place you high on the mountain today and leave you stranded in the valley tomorrow. We give money too much control over our lives due to not understanding the financial concepts of budgeting and debt management. I learned this lesson the hard way when I found myself having to file for bankruptcy in my mid-twenties because I lacked these skills. Being void of these skills leaves us in a condition or state called financial illiteracy which simply means lacking the financial understanding that would allow an individual to make good economic choices. In a report, submitted by the Financial Industry Regulatory Authority (FINRA), about 66% of the American population is considered financially illiterate. Understanding the language of money can help you achieve and maintain financial literacy and financial stability in an ever-changing economy.

In working towards financial literacy budgeting is your most important component. Budgeting is keeping a track and a tab on all your expenses and spending habits. Found within your budget are items that are called recurring expenditures. These are those items that are subtracted from your income on a set time during the month or year. This would include such items as house payments, car payments, insurance policies, health care premiums, cell phones, internet, and entertainment services. The next item would be your necessities, and these would include things like groceries, clothing, personal hygiene products, vehicle maintenance and upkeep, and household maintenance. You would also need to keep track of your miscellaneous spending. This is where most budgets get thrown off course. Going to the movies, eating out often, impulse buying, donating money to a religious or civil activity, or loaning money to friends. Not to say that miscellaneous spending is bad, but it can hinder your ability to maintain a healthy budget.

The next important component in achieving financial literacy is controlling your debt. Debt is defined as something that is owed, regarding financial literacy debt typically means money. There are two main categories of debt, good and bad. Good debt is debt that which is beneficial to an individual, like a home mortgage, a business loan, an educational loan, or something that increases your net worth. Bad debt is debt that depreciates or loses its value over time. Buying expensive cars, using credit cards to buy everyday items like food or clothes, or financing a vacation are examples of bad debt. The level and type of debt you have effects your borrowing power when it comes to applying for loans. Borrowing power is the amount of money an individual or company can borrow based on their financial situation. The lower your debt-to-income ratio the greater your borrowing is and its vice versa when the debt-to-income ratio is higher. Most banking institutions have a 20% debt-to-income ratio meaning that if your debt

exceeds 20% percent of your income its much harder to get a loan. And if you do, the interest rate would be very high, much higher than a normal one. It's very important to manage your debt quickly because it can negatively affect your budget.

In conclusion, the earning and spending of money is certainly something all of us will encounter. For those preparing to go into the work force, for those already involved, and for the ones that have graciously and gratefully retired the acquisition and implementation of financial management skills are vitally important. Understanding the language of money can help you achieve and maintain financial literacy and financial stability in an ever-changing economy.