

A young man with short, dark, curly hair is smiling broadly and holding a credit card out towards the viewer. He is wearing a light-colored polo shirt. The background is a collage of financial and shopping-related icons: a debit card with the word 'Debit' on it, a dollar sign in a circle, a price tag with a dollar sign, and several shopping bags. The word 'SALE' is written in large, semi-transparent letters across the background. The entire image is framed with a thick, teal, torn-edge border.

**Unit 4 - Good Debt, Bad Debt:
Using Credit Wisely**

Credit Facts

- Nearly **33%** of teens owe money to either a person or company, with an average debt of **\$230**.
- About **26%** of teens ages 16-18 already have more than \$1,000 in debt.
- **30%** of teens say they understand how credit card interest and fees work.
- **36%** of teens say they know how to establish good credit.

Top 10 Questions to Ask

Before Signing on the Dotted Line

1. Can I afford to pay with the money I'm using?
2. All things considered, is using credit worth it for this purchase?
3. What will happen if I don't make the payments on time?
4. What is the interest rate (APR) on this credit?
5. What will be the extra cost of using credit?
6. Are there additional fees?
7. What will I have to give up to pay for it?
8. How much is the monthly payment, and when is it due?
- 9.
- 10.

The Language of Credit

- **Credit** is the amount of money or something of value that is loaned on trust with the expectation it will be repaid later to lenders.
- **Types of Credit**
 - Borrow up to a predetermined limit (i.e., credit card)
 - Borrow cash to be repaid by a specific date
 - Borrow money for a major purchase to be repaid in regular payments over time, typically monthly (i.e., car loan, home mortgage)

The Language of Credit

- **Debt** is the entire amount of money you owe to lenders.
- **APR** (Annual Percentage Rate) is the total cost to use credit in a year.
- **Term** is how long you have to repay a loan, often expressed in months.
- **Fees** are charged to use credit.
Examples: Annual Credit Card Fee, Loan Origination Fee, Over-the-Limit Fee



The Language of Credit

- **Credit History** is a record of your behavior related to borrowing and repaying loans.
- **Credit Report** is a detailed record of your personal credit and financial transactions.
- **Credit Score** is a rating used by credit reporting companies to help lenders decide whether and/or how much credit can be extended to a borrower.



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The Language of Credit

- **Universal Default** allows a credit card company to increase your interest rate if you make just one late payment.
- **Bankruptcy** is a legal process to get out of debt when you can no longer make all your required payments.

Types of Credit

Installment Credit

- Fixed payments
- Set period of time to repay
- Set or varying interest rates
- Car loans and home loans are typical examples.

Revolving Credit

- No stated payoff time
- Limit to credit
- Minimum monthly payments
- Interest rates vary or not
- Finance charges
- Credit cards most typical example

Sources of Credit

- Banks
- Credit Unions
- Department Stores
- Automobile Dealers
- Oil Companies (for gas stations)
- Federal Government (for student loans)
- Others?



WHEN YOU BUY “STUFF”

You bought “STUFF” with your credit card.

In fact, you bought \$500 worth of “STUFF” with your credit card.

Your APR is 18%.

You plan to pay \$10 a month to pay it off.

You will pay \$431 in interest

Final cost of your purchases = \$931.40

And it will take SEVEN YEARS and NINE MONTHS



How Long Will It Take???

You owe \$3,000.

APR = 18%

Payment: 4% of current balance

Finance Charge \$1715.69

**Total cost of original
\$3,000 loan = \$4715.69**

**And it will
take
nearly
11 YEARS
to pay off!**

After you've made the last payment, will what you purchased still be around???

The Cost of Using Credit

\$700 for a Game System

APR = 24%

Payment: 4% of current balance

Finance Charge \$550.04

**Your CD player REALLY
cost \$1,250.04**

**And it will
take over
7 years
to pay off!**

After you've made the last payment, will
your CD player still be around???

The Cost of Using Credit

Interest Rate = 24%

Payment = 4% of Current Balance

BALANCE	TIME TO PAY OFF	INTEREST CHARGED	TOTAL COST
\$2,000	11 YEARS 6 MONTHS	\$1,850	\$3,850
\$6,000	16 YEARS 1 MONTH	\$5,850	\$11,850
\$10,000	18 YEARS 2 MONTHS	\$9,850	\$19,850

The Cost of Using Credit

\$3,000 Charged to Credit Account

APR = 21%

Payment: 4% of current balance

Finance Charges \$2,220.57

Annual Credit Card Fee: \$65

Paying the minimum, it will take you 11 YEARS and 11 MONTHS to pay off your debt.

**You Owed
\$3,000
but
You Paid
\$6,065+**

Includes annual fees



Financial Consequences of Debt

- Could put you in a state of overspending and perpetual debt, where you get used to carrying a balance and paying extremely high interest rates.
- Could adversely affect your credit rating, making it harder to get loans when you really need them.



Financial Consequences of Debt

What if you took the \$120 monthly payment in the last example and INVESTED \$120 a month for the 12 years it took to pay off the \$3,000 debt, and your investment got an 8% rate of return?

Instead of \$6,000 paid out for \$3,000 worth of “stuff”, your \$120 monthly investments would amount to \$28,799 in your pocket!



The Four “Cs” of Credit

Collateral

Capital

Capacity

Character



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How Credit Scores Are Determined

- **Your payment history**

- Information about how you make your payments on credit cards, store accounts, car loans, finance companies, mortgages
- Accounts in collection or past due, and how long past due
- Information in public records, such as bankruptcy, judgments, liens, wage attachments or child support

How Credit Scores Are Determined

- **Your overall debt**
 - How much you owe on all your accounts
 - How much credit you have available to use
- **Your credit account history**
 - When you opened and used each of your accounts
 - How recently you applied for new credit
 - Recent good credit history following past payment problems

How Credit Scores Are Determined

- **Types of Credit**

- The different types of credit accounts you have
- The total number of accounts you have



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Get and Keep a Good Score

- Make sure your credit report is accurate.
- Pay all your bills on time.
- Apply for credit only when you need it.
- Lower the balances on all your credit accounts.
- Pay off debt rather than moving it around.



Protect Yourself Against Inaccurate Credit Reports

- Get a copy of your free credit reports from all credit rating agencies.
- Examine it thoroughly.
- If you find something that is incorrect, ask the agency to investigate the information.
- If that doesn't resolve the issue, you can attach a short statement to your credit report.



Rule of Thumb

