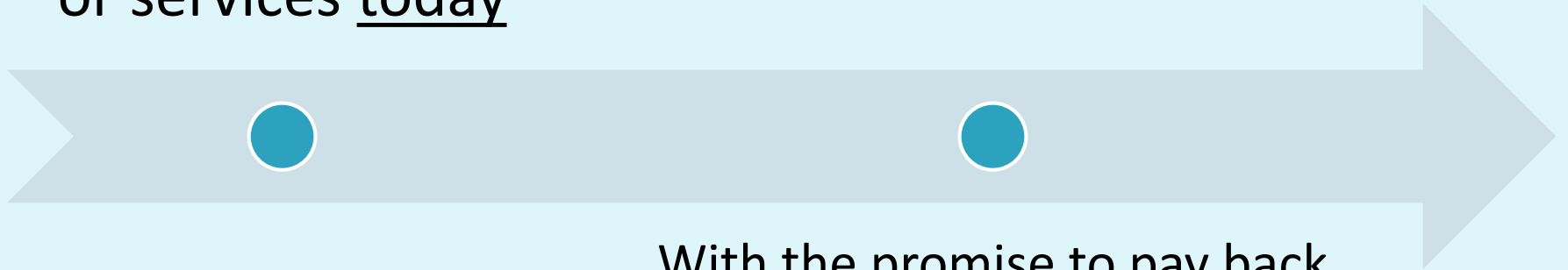


CREDIT BASICS

Advanced Level

YOUR PRESENT SELF IMPACTS YOUR FUTURE SELF

You receive goods
or services today



With the promise to pay back
the determined amount of
money (usually in small
increments plus interest) in the
future

Credit availability depends on if lenders trust you
will pay back the loan as agreed.

CREDIT SOURCES

Private mortgage companies

Credit card companies

Depository institutions

There are many sources of credit including...

Pawn shops

Automobile dealerships

Insurance agents

Government

What credit sources provide the most favorable terms?



WHEN YOU BORROW YOU ARE SPENDING FUTURE INCOME

Interest is typically paid for the convenience of using credit

Toby's
Automobile
Loan

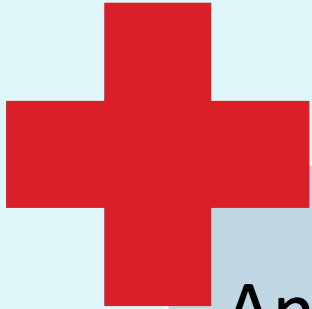
\$10,000
loan

8% annual
interest
rate

Monthly
payments
for 3 years

\$1,280.96
paid in
interest

CREDIT CAN BE...



An effective tool if
managed
responsibly

Create financial
stress and
negatively impact
quality of life and
financial well-being
if not managed
responsibly

MANAGING CREDIT RESPONSIBLY

EVALUATE THE PURPOSE

Ask Yourself

Does the loan/credit provide long-term benefits?
Is the item a want or a need?

Investing in your human capital with an education loan

Purchasing a vehicle to get to and from work with an automobile loan

Having a credit card to securely make online purchases and for emergencies

Even if the loan provides long-term benefits, the credit terms should still be favorable

MANAGING CREDIT RESPONSIBLY

CONSIDER YOUR OPTIONS

Ask Yourself

- Is using money you already have in a saving or investment account a better option?

Ask Yourself

- Can you wait to purchase the item until you have enough money saved?

Benefits:

No contract



No interest or fees



You are not spending future income

MANAGING CREDIT RESPONSIBLY

EVALUATE THE CONTRACT

A contract outlines how and when you will pay the money back



Are the terms (such as interest rate) favorable?

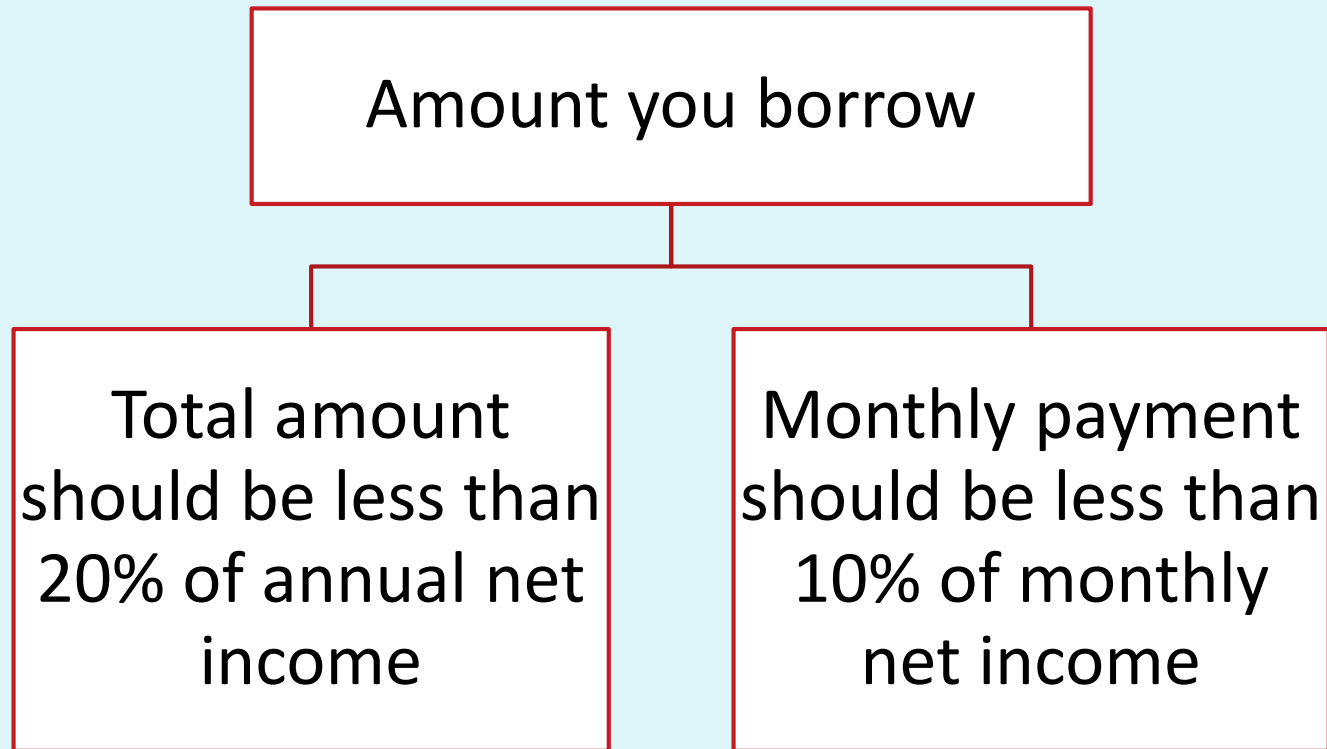


Is the loan feasible both in the present and in the future?



Are the terms consistent for the life of the loan?

AMOUNT YOU BORROW



Housing payments are not included as a part of the monthly 10%



Why should individuals limit their debt?

CLOSED-END CREDIT (INSTALLMENT)

What it is...

Loan which the borrower must repay the amount in a specified number of equal payments

Features...

Contract outlining repayment terms

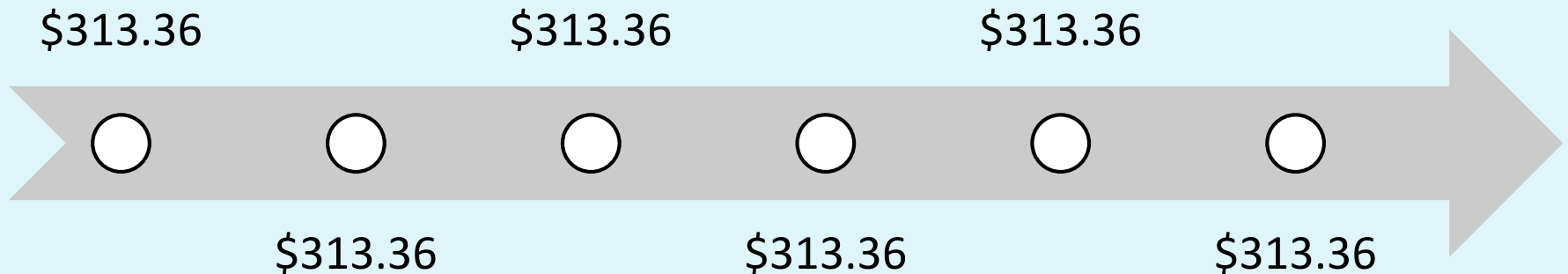
Examples...

Mortgage
Automobile loan
Personal loan
Student loan

EXAMPLE

CLOSED-END OR INSTALLMENT CREDIT

Toby applied for a \$10,000 automobile loan at 8%. He signs a contract with the lender to pay \$313.36 per month for 36 months to repay the loan.



Toby could pay more than \$313.36 per month to pay off the loan earlier, but he must pay at least \$313.36 per month.

OPEN-END CREDIT

(REVOLVING)

What it is...

Extended line of credit established in advance

Features...

Loan may be paid (usually monthly) in a single payment or series of unequal payments

Example...

Credit card



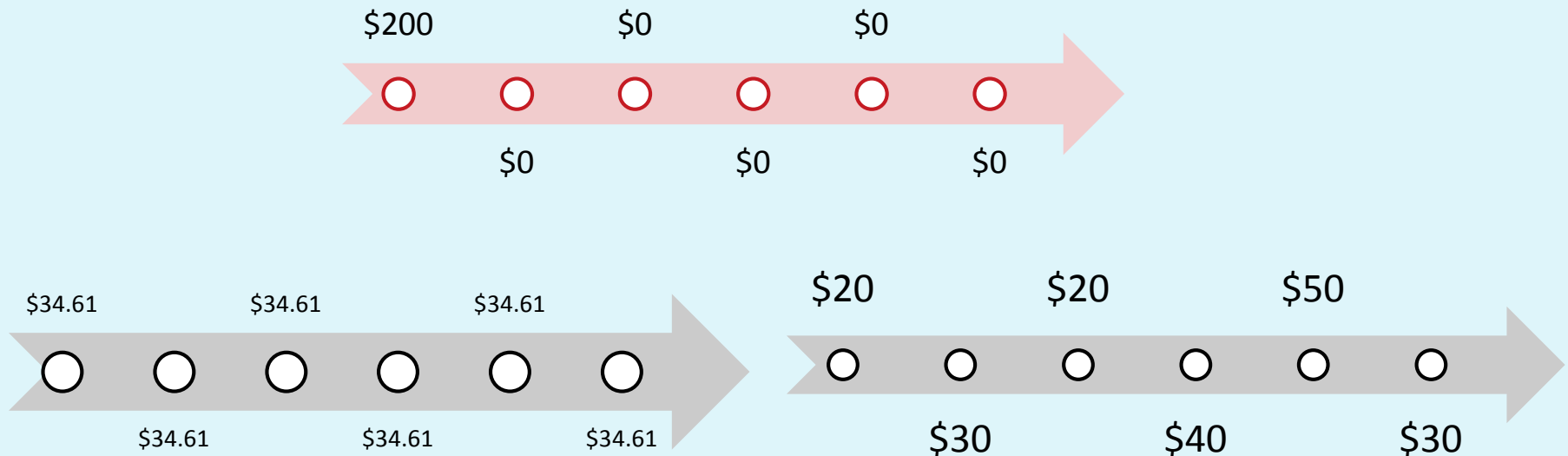
Did Toby have closed-end or open-end credit?

EXAMPLE

OPEN-END OR REVOLVING CREDIT

Whitney charged \$200 to her credit card with a 13% interest rate. She receives her credit card bill with a \$20 minimum payment.

Whitney has many options for paying back the \$200 as long as she makes the minimum payment.



ALTERNATIVE CREDIT

May combine
elements of closed
and open-end
credit

Usually has higher
interest rates

Usually has higher
fees

TYPES OF ALTERNATIVE CREDIT

PAYDAY LOAN

Short-term loan that provides immediate cash by securing a borrower's written check or automatic withdrawal form

The loan...

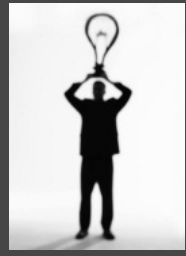
- Total loan: \$350
- Lender fees: \$60
- Amount the borrower receives: \$290

On the agreed upon date (usually payday)...

- Lender seeks their fees
- By depositing the check or withdrawing the money

If the borrower does not have money in their account...

Accumulate fees and possible legal action
Or, pay \$60 fee again to keep the existing loan outstanding or take out a new loan



ALTERNATIVE LENDING HAZARD

Mario needs \$300 to pay his car payment. He uses a payday lender.

Directions

- After each roll, record:
 - Number rolled
 - Payday loan activity
 - Cost
- Calculate the total cost of the loan

Discussion Questions

- How much did Mario pay total?
- If Mario could not pay back the loan until April, what happened with his other car payments?

TYPES OF ALTERNATIVE CREDIT

RENT-TO-OWN

Borrower leases tangible items with the condition that the item will be owned by the renter if the term of rent is completed

Purchase a
50" LCD TV
valued at
\$1,890

Pay \$39.99
per week
for 104
weeks

Total paid:
\$4,158.96

Interest
rate paid:
92%



What are alternative options?

TYPES OF ALTERNATIVE CREDIT

TITLE AND PAWN LOAN

The loan...

Borrower gives the lender their automobile title or personal property in exchange for cash (based on value of item)

To get their item back, the borrower must...

Pay the lender back cash and fees/interest within a specified time period

If credit terms are not met...

The lender keeps the item

What are alternative options?



TYPES OF ALTERNATIVE CREDIT

REFUND ANTICIPATION LOAN

Lender gives borrower a loan based upon their anticipated tax refund



Lender charges the borrower a fee for this service



Borrower authorizes the Internal Revenue Service to deposit money directly into the lenders account



If the borrowers refund was less than the loan amount, they owe the lender the difference

HOW TO OBTAIN CREDIT

Exact process depends on the type of credit and lender

Credit application

A form requesting information about a credit applicant

Typical questions

Personal information
 Credit requested
 Information about your ability to repay the credit

Credit history check

Evaluate your credit report and score
 The trade-off to no credit history check is often higher interest rates and fees

What type of loans typically advertise no credit check?



SHOPPING FOR CREDIT

Shop around with different lenders!

Terms of
credit are
outlined in
the
contract

Read the
contract
carefully!

Ask
questions!

SHOPPING FOR CREDIT

EVALUATE THE CONTRACT CAREFULLY!

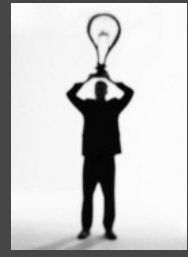
What is the annual interest rate?

Are there fees?

What are the consequences of a missed or late payment?

What happens if the loan is not paid back in full?

Do you trust and feel comfortable with the lender?



EVALUATE A CONTRACT

- Circle items that are potential red flags
- Underline the terms of credit
 - Annual interest rate
 - Fees
 - Consequences of late/missed payments
 - Other things to consider
- Is this a contract you would sign?

YOU ARE RESPONSIBLE FOR YOUR PRESENT SELF AND FUTURE SELF!

Understand
your
responsibilities
as a borrower

Consider
future
implications to
paying back
the amount
borrowed

Shop around
for the best
terms



What types of credit will you need in the next five years?
Where will you go to get it?