

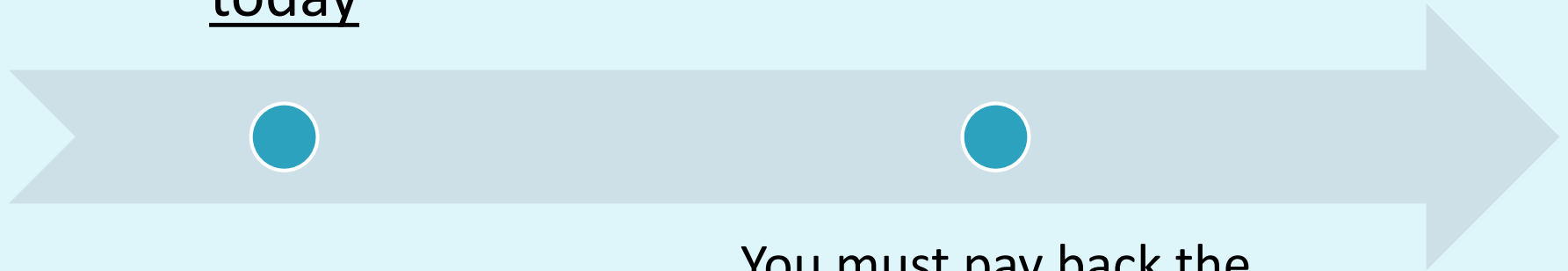
CREDIT BASICS

CREDIT SCATTERGORIES

- Watch the following clip and write down as many words or phrases that relate to credit.
- We'll see which class member has the most words and the class member who has the most UNIQUE words.
- <https://www.youtube.com/watch?v=C PJmZ6AnCNY>

YOUR PRESENT SELF IMPACTS YOUR FUTURE SELF

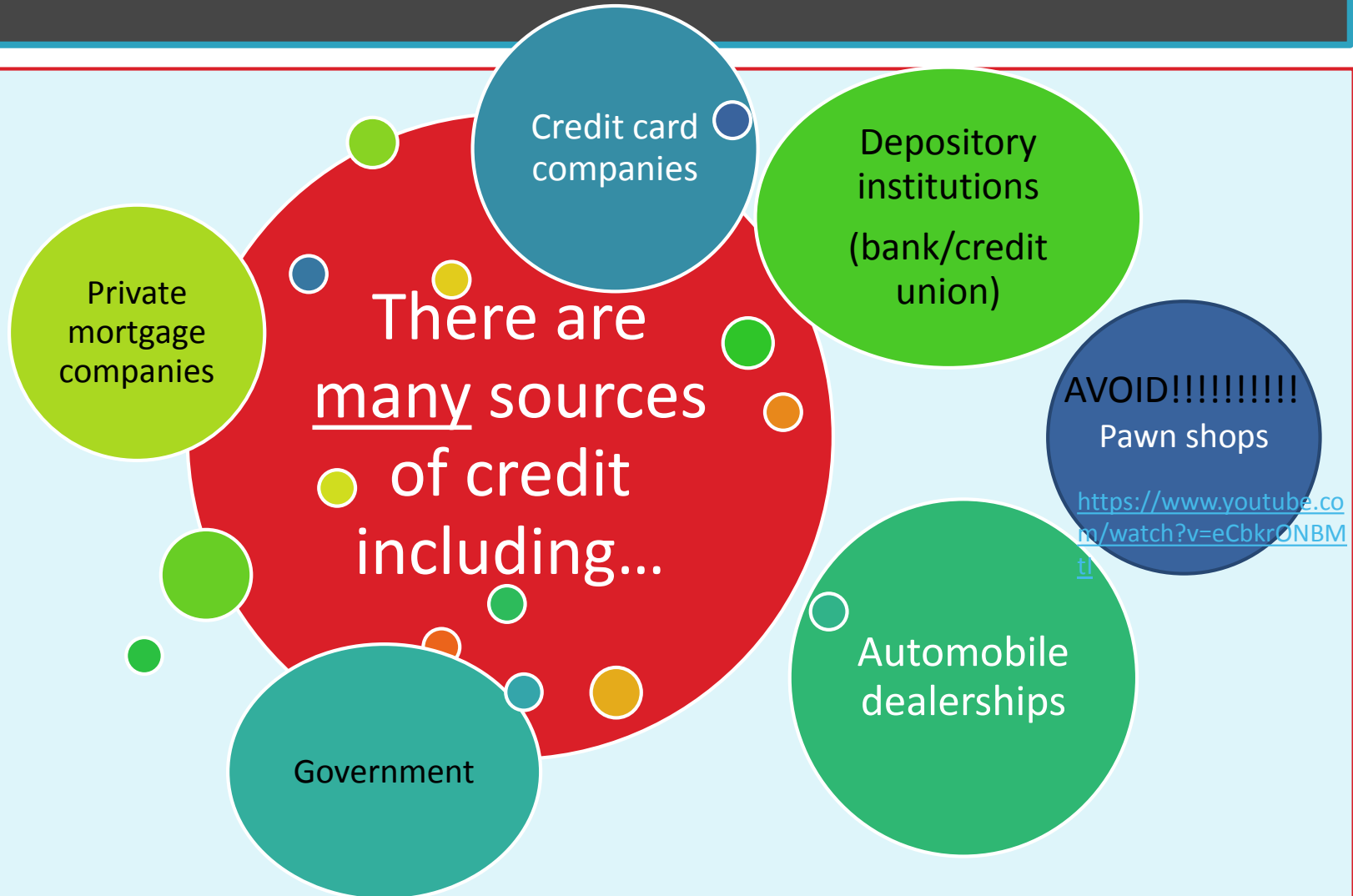
Credit is receiving
goods or services
today



You must 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.

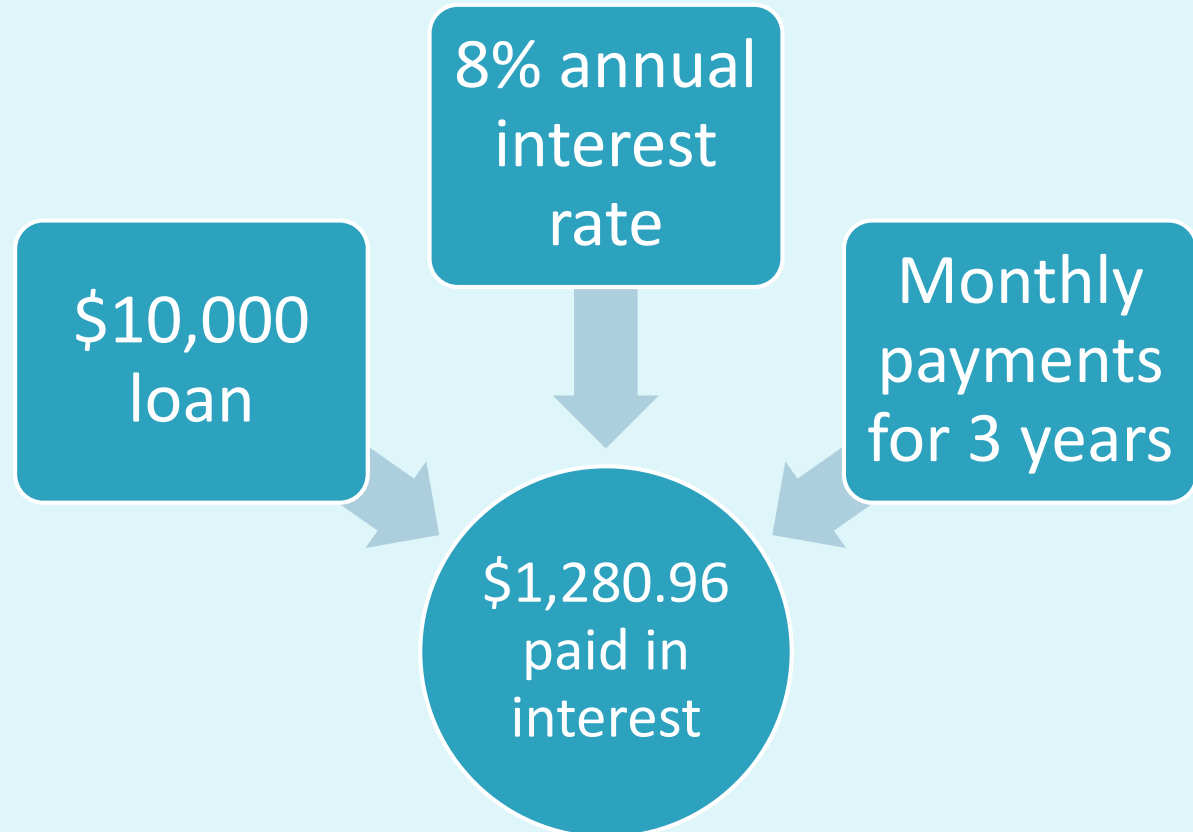
CREDIT SOURCES



WHEN YOU BORROW YOU ARE SPENDING FUTURE INCOME

Interest is typically paid for the convenience of using credit

Toby's
Automobile
Loan
TOTAL COST:
\$11,280



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

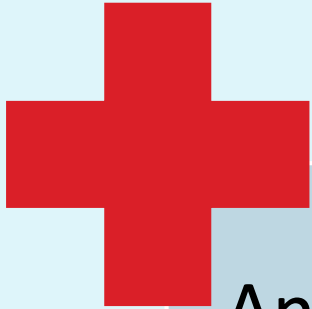
Having a credit card to make purchases and for emergencies

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

CREDIT CAN BE...

Outstanding Balance

<https://www.youtube.com/watch?v=Od4pqh0RlpU>



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

CONSIDER YOUR OPTIONS

Ask Yourself

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

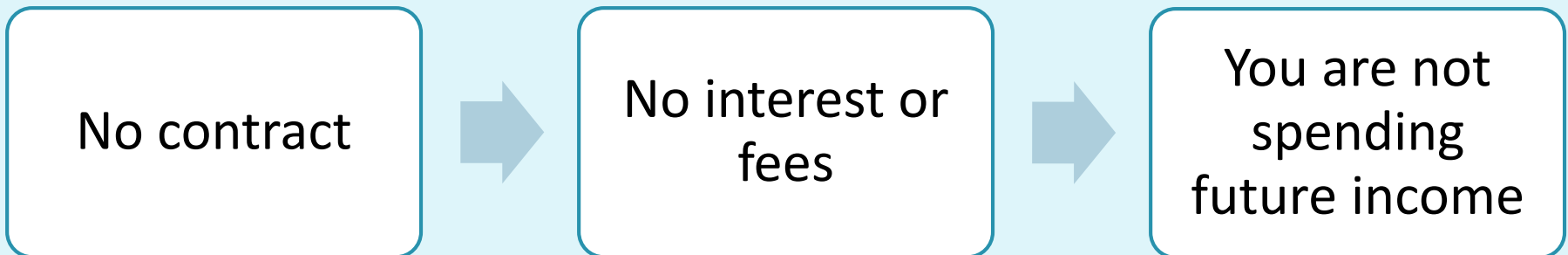
Ask Yourself

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

Car loan myth

https://www.youtube.com/watch?v=NvZJb_ydvUk

Benefits:



Disadvantage? HINT: OPPORTUNITY COST?

MANAGING CREDIT RESPONSIBLY

EVALUATE THE CONTRACT

<https://www.youtube.com/watch?v=qWWZ77-1YuA>

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

Are the terms (such as interest rate) favorable?

Will you be able to make the payment both in the present and in the future?

Are the terms consistent for the life of the loan or does the interest rate change, for example?

AMOUNT YOU BORROW

[HTTPS://WWW.YOUTUBE.COM/WATCH?V=FEP_G-OREKO](https://www.youtube.com/watch?v=FEP_G-OREKO)

Amount you borrow

Total amount you owe should be less than 20% of your annual net income

Monthly credit payments should be less than 10% of monthly net income

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

30yr. v. 15yr

Mortgage

<https://www.youtube.com/watch?v=RvS6anSs1e8>

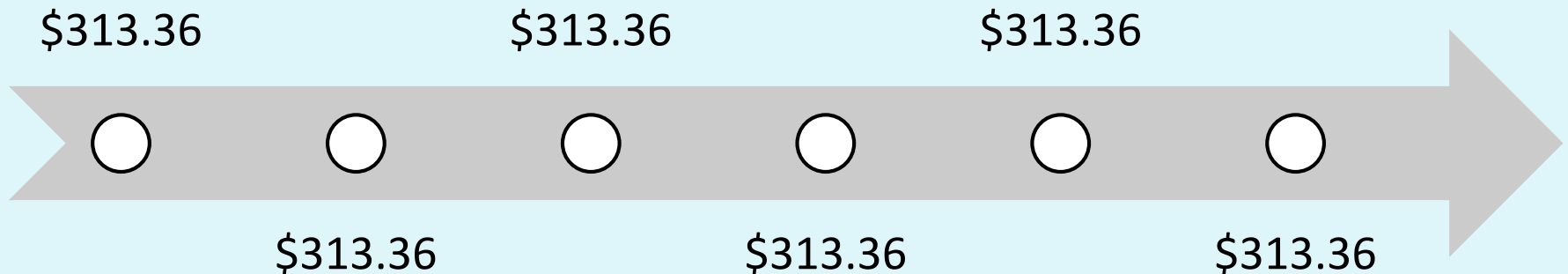
Automobile loan

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

What is the Real Cost of Credit?

Minimum payments

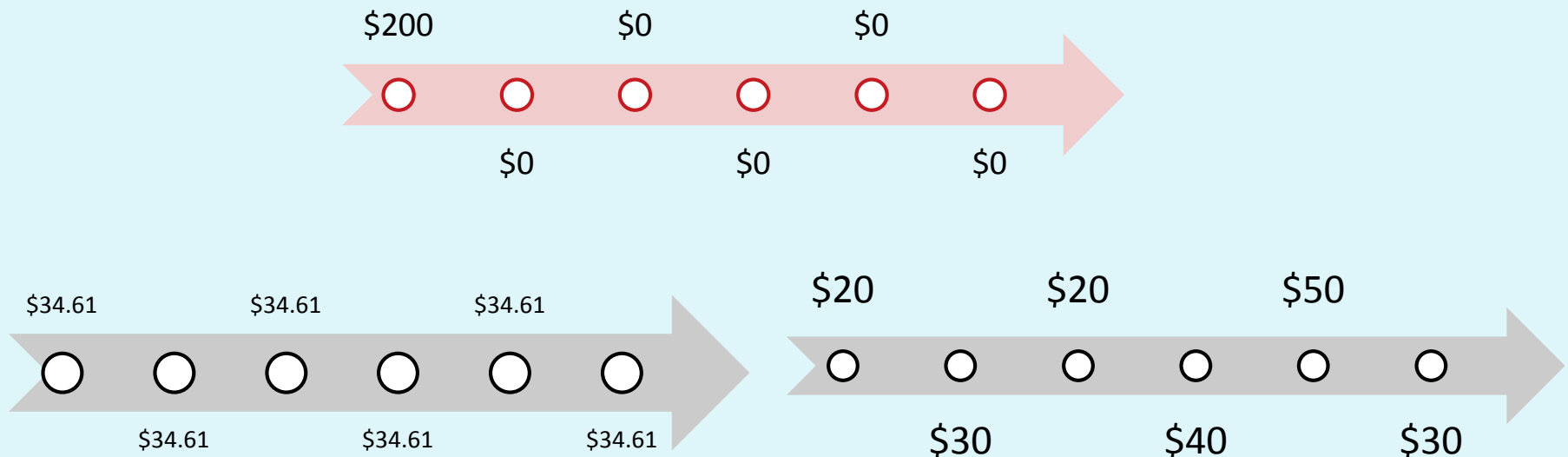
<https://www.youtube.com/watch?v=Vz05A6cP6lw>

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

https://www.youtube.com/watch?v=d4TqNI9rU_s

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

The loan...

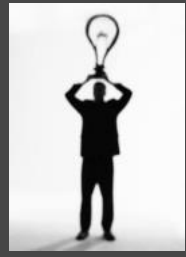
- Total loan: \$350
- Lender fees: \$60
- Amount the borrower receives: \$290

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

<https://www.youtube.com/watch?v=n0QaYtuOj0E>

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

<https://www.youtube.com/watch?v=wiKuxkw6XxQ&index=3&list=PLRrhWHt55IQoRod8iC49uBaO3VDqI88lc>

Lender gives borrower a loan based upon their anticipated tax refund



Lender charges the borrower a fee for this service



Borrower authorizes the IRS to deposit money directly into the lender's account



If the borrower's 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!

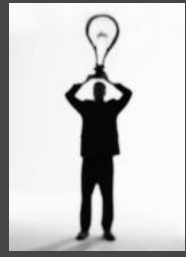
What is the annual interest rate?

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?



BIG BLING CREDIT CARD AGREEMENT

- 1 minute to read
- Would you sign to get the bonus miles?
- Now, circle items that are potential red flags: unfamiliar terms/complicated language
- How might these impact a consumer during a high-pressure sales pitch?
- Underline the terms of credit
 - Annual interest rate
 - Fees
 - Consequences of late/missed payments
 - Other things to consider: limits? maximums? conditions?
- Is this a contract you would sign? Why or why not?
- High interest rates; automatic cash advance; more conditions can be added

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?

Please complete these assignments:
“Which Is the Best Deal?”
“Can They Handle the Debt”