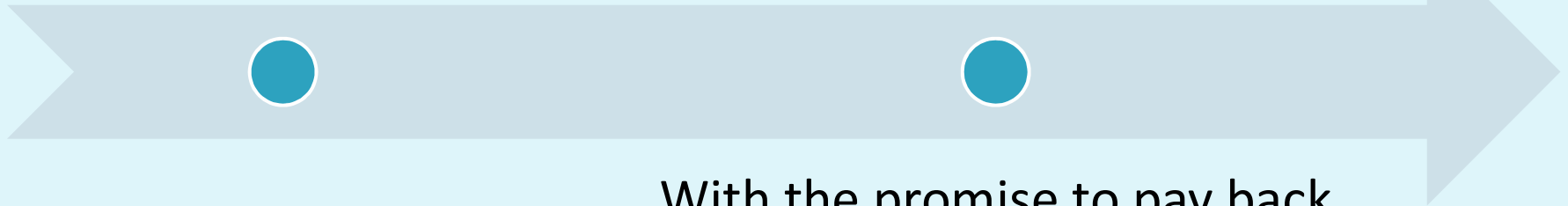


# CREDIT BASICS

Advanced Level

# YOUR PRESENT SELF IMPACTS YOUR FUTURE SELF

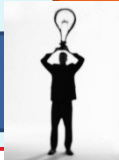
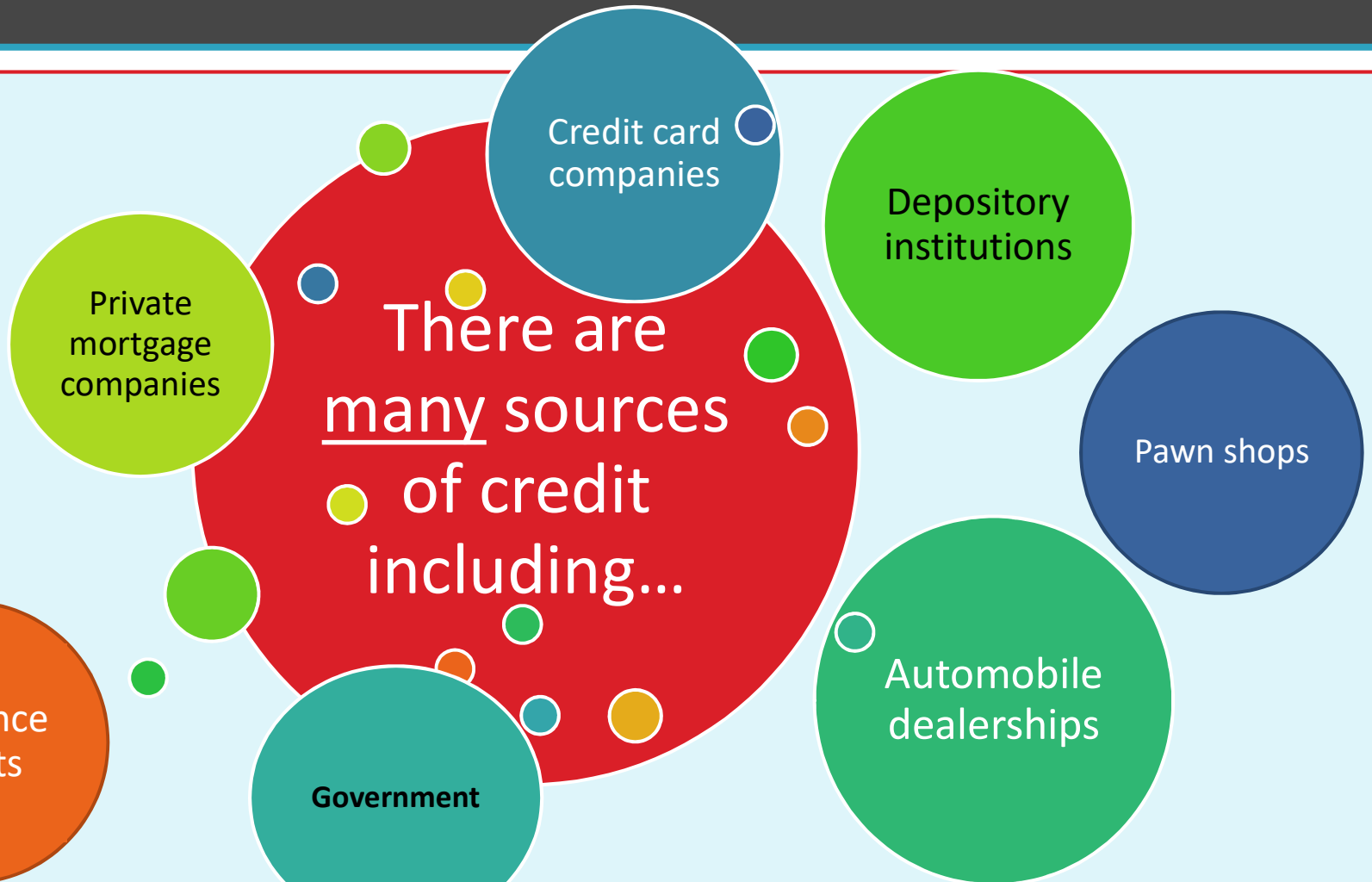
You receive goods  
or services today



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

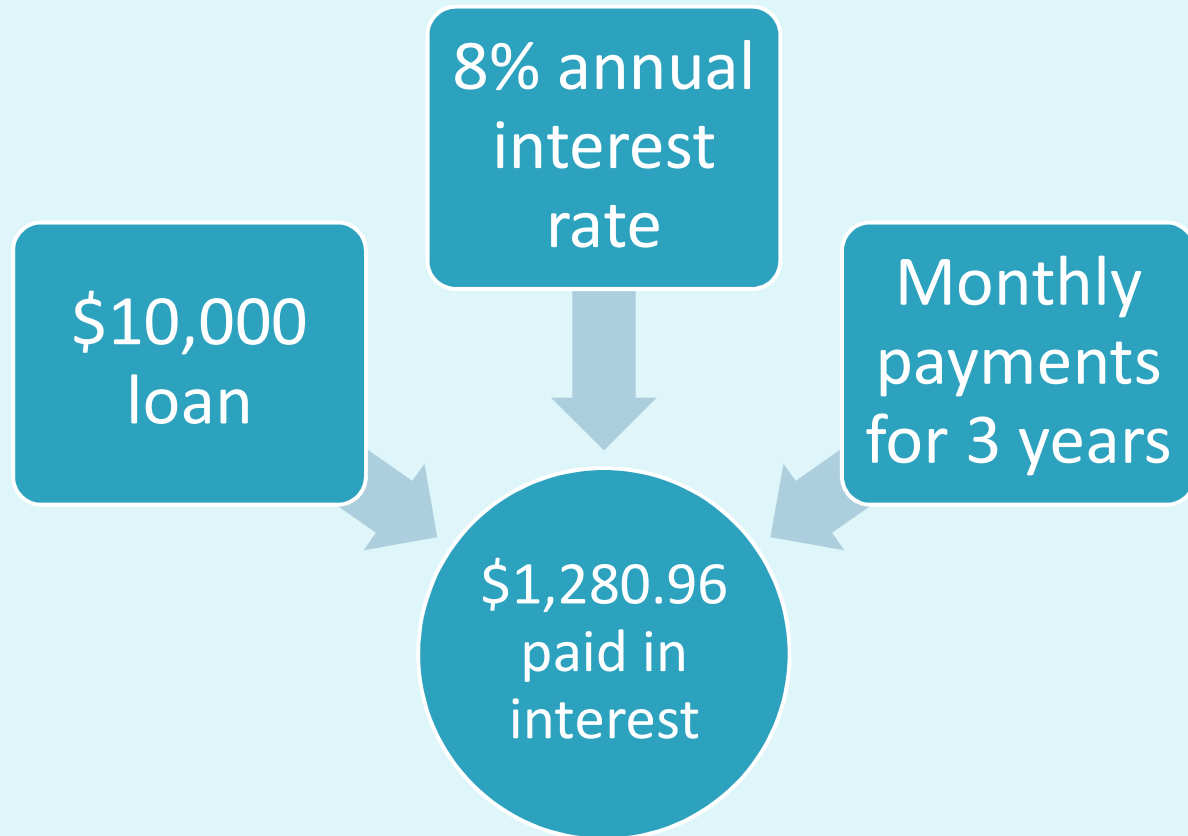


What credit sources provide the most favorable terms?

# WHEN YOU BORROW YOU ARE SPENDING FUTURE INCOME

Interest is typically paid for the convenience of using credit

Toby's  
Automobile  
Loan



# 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

Amount you borrow

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

Monthly payment  
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

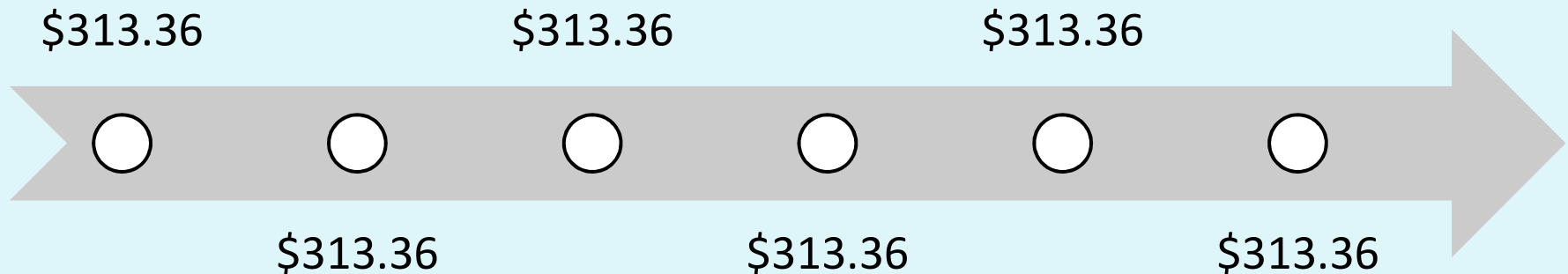
## Examples...

Mortgage  
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...

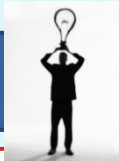
Extended line of credit established in advance

### Features...

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

### Example...

Credit card



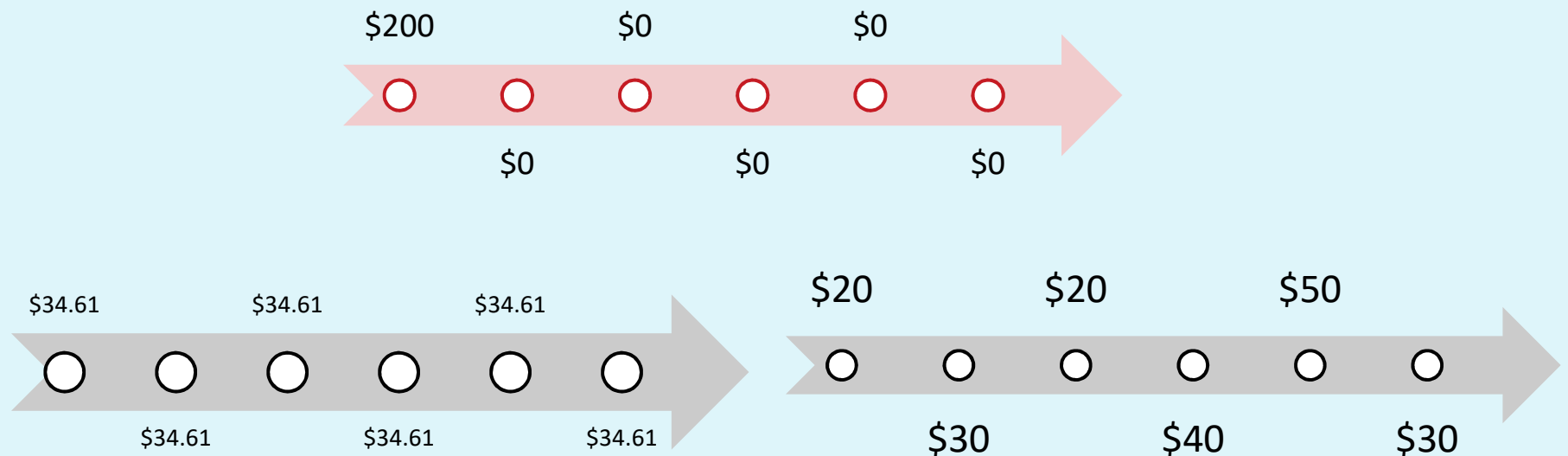
Did Toby have closed-end or open-end credit?

# 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...

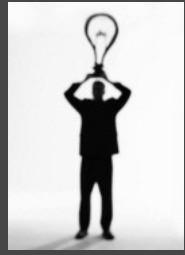
- Total loan: \$350
- Lender fees: \$60
- Amount the borrower receives: \$290

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

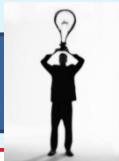
Borrower leases tangible items with the condition that the item will be owned by the renter if the term of rent is completed

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...

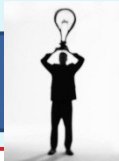
Borrower gives the lender their automobile title or personal property in exchange for cash (based on value of item)

### 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!

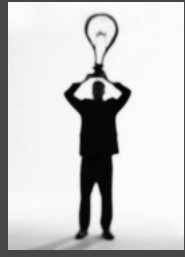
What is the annual interest rate?

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?