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Credit and Loans

Credit – Keeping Promises



- Have you ever borrowed money from someone?
- What kind of agreement did you make with them about paying the money back?
- Has anyone ever borrowed money from you and didn't pay you back?



CREDIT SCORE

Video – What is Credit?



What is Credit?

Four C's of Credit



CREDIT HISTORY

Lenders want to see a history of stability - for example, how long have you lived at your current address, how long have you been at your current job, do you have a history of paying your debts on time.

COLLATERAL

Assets of a borrower (for example, a home) that the lender has the right to take ownership of and use to pay the debt if the borrower is not able to make the loan payments as agreed.

CONDITIONS

Lenders might consider outside circumstances that may affect the borrower's financial situation and ability to repay (for example, what's happening in the local economy).

CAPACITY

Your other debts and expenses could impact your ability to repay the loan. Creditors evaluate your debt-to-income ratio, that is, how much you owe compared to how much you earn.

Where Can I Get Credit?



- Banks and credit unions
- Credit Cards (e.g. Visa, MasterCard, Amex)
- Department stores (e.g. Target, Walmart, Costco, Best Buy)
- Car dealerships
- Loans / Student loans
- Stores (furniture/electronics)



Tip: If you're just starting out, you may want to consider opening a secured credit card or loan, gas card, or retail store charge card to begin establishing your credit history.

Responsible Credit Management



Responsible Credit Management Practices

- Pay the outstanding balance or minimum amount every month
- Keeping credit card balances below 70% of the credit limit
- Paying on time
- Never missing a payment
- Staying within your credit limit
- 'Freeze' Your Credit to Protect Yourself¹

¹<https://www.experian.com/freeze/center.html>

Results of Responsible Credit Management

- Easier to borrow money
- No penalty fees
- More money in your pocket
- Potentially lower interest rates
- Low ratio of debt vs. income
- Ability to shop around

Credit History



Lenders find credit history and scores from the following credit agencies:

EQUIFAX TRANSUNION EXPERIAN

Credit Agencies Track

- How much you owe
- Whether you pay your bills on time
- Different types and number of credit accounts you have
- Where you live/work and how long you've lived/worked there



Your Credit Score

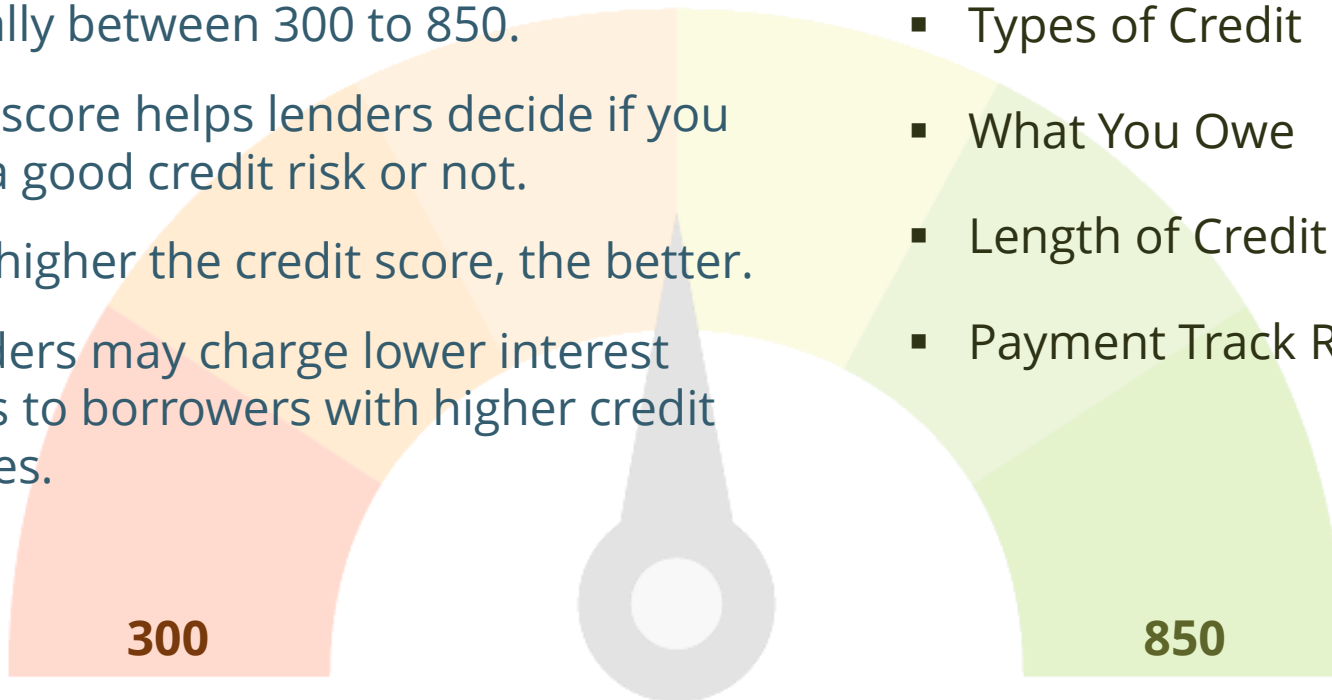


Like your credit history, lenders may look at your Credit Score. A Credit Score is a number that indicates how reliable you are at paying your debts.

- A program analyzes your credit history and generates a single number score, usually between 300 to 850.
- This score helps lenders decide if you are a good credit risk or not.
- The higher the credit score, the better.
- Lenders may charge lower interest rates to borrowers with higher credit scores.

What goes into your credit score:

- Types of Credit
- What You Owe
- Length of Credit History
- Payment Track Record



The Basics of Loans – Video



The Basics of Loans

Loan Comparison



Compare Interest Rates

Now compare these two sample loans. Note how the interest rate affects the total amount of interest paid

Interest Rate Comparison

Loan amount of \$10,000 with a 5 year term

ABOUT THE LOAN	LOAN A	LOAN B
INTEREST RATE	5%	15%
MONTHLY PAYMENT	\$188.71	\$237.90
TOTAL INTEREST OVER 5 YEARS	\$1,322.74	\$4,273.96



Note: Always try to get a loan with the lowest interest rate you can. A strong credit score may help you qualify for a lower interest rate.

Loan Warning Signs



- False Information
- Bank Loan Documents
- Bait and Switch
- Equity Stripping
- Loan Flipping
- Fees for Bi-Weekly Payments



Tip: If you're just starting out, you may want to consider opening a secured credit card or loan, gas card, or retail store charge card to begin establishing your credit history.

Quiz Time!



Q1: True or False – When I use my credit card to make a purchase I am borrowing money?

True

False

Q2: The term **Interest Rate** refers to:

- a.** Amount of credit I have available on the card.
- b.** The interest rate set by the government for credit cards.
- c.** My annual fee for having this rewards card.
- d.** What is used to compute my finance charge.

Wrap-up



Be smart about managing your credit

- Shop for credit
- Keep track of charges
- Plan your shopping
- Pay on time
- Set limit and stick to them!
- Get help early if you can't meet your credit obligations



Be aware of credit trouble signs

- Paying late
- Ignoring savings
- Bouncing checks
- Maxing out credit
- Experiencing stress over finances
- Feeling like you're paying forever

Thank You

Handouts

Ten Tips for Credit Card Users



- 1. Pay on time.** Ask your credit card issuer if it offers automatic payment options or email alerts to remind you when a payment is due.
- 2. Read your cardholder agreement—all of it.** The agreement spells out fees and finance charges, so make sure you understand the terms. If you have questions, don't hesitate to ask your card issuer's customer service agent.
- 3. Learn the facts about finance charges.** If you don't pay the entire amount due within the grace period, you will be charged interest on the unpaid amount. Understanding how creditors calculate interest can help you to manage your costs. Make sure you know the Annual Percentage Rate (APR), Periodic Rate, and the method the creditor uses to calculate interest.
- 4. Know your credit limit.** Monitor your account so you know how much available credit you have. Stay well below your limit in case you need to make an emergency purchase.
- 5. Create a budget and stick to it.** Budgeting helps you keep control of your finances and resist spending sprees. If you plan ahead, you'll know whether or not you can afford a particular purchase.
- 6. Reduce your debt.** Keep your credit card balance low and don't take on more debt than you can handle. This will also help your credit score.
- 7. Limit cash advances.** These advances often incur higher fees and finance charges.
- 8. Applying for a new account? Think first.** When a potential lender requests your credit report, an "inquiry" registers on your report. A high number of inquiries can negatively affect your credit score, so only apply for a new account when you really need it.
- 9. Prevent credit card fraud.** Closely watch activity in your account. Many companies allow you to check your activity online at any time. Make sure that each transaction was made by you. If you notice suspicious activity, report it to your credit card issuer immediately.
- 10. Review your credit report.** At www.annualcreditreport.com, you can receive one free copy of your credit report once a year from each of the three largest credit bureaus in the United States.

For more information on Credit Card Regulations, please visit www.federalreserve.gov/consumerinfo/consumercredit.htm.

What's Your Credit Picture?



Instructions: Read each statement in the Your Credit Situation column. Decide whether this statement accurately describes your credit picture today. Write “True” or “False” in the right column.

YOUR CREDIT SITUATION	TRUE OR FALSE
I manage my savings and checking account well and never spend more than my balance.	
I frequently monitor the activity in my accounts.	
I have one or more credit cards and pay my bill on time, every month.	
I pay as much of my credit card bill as I can each month—always at least the minimum monthly amount.	
Less than 10% of my monthly income goes toward paying off credit card bills.	
I always comparison shop for credit cards and loans.	
I never sign loan papers unless I completely understand the terms first.	
I have built my credit by taking out a small loan and repaying it monthly—in full and on time.	
I know what my current credit score is.	
I know how I can improve my credit score and have taken steps to do so.	
I know how to order my annual credit report.	
I have reviewed my credit report in the last 12 months and checked it for errors.	
If I find an error in my credit report, I know how to get it corrected.	
My total debt is less than 20% of my annual net income.	
If I'm having problems repaying a debt, I contact the lender right away to discuss what to do.	

Credit Card Quiz



1. How frequently are you entitled to a free copy of your credit report from each of the credit agencies?

- a. Once a month per agency.
- b. Once a year per agency.
- c. Once every two years per agency.
- d. Never—you always have to pay for it.

2. The maximum amount you can carry as the balance on your credit card is called:

- a. Credit Balance
- b. Revolving Debt
- c. Credit Limit
- d. Free Money

3. Paying on time is important. Missing your payment due date can result in additional finance charges and late fees. To help you make payments on time, you can:

- a. Monitor your account with online banking.
- b. Sign up for e-mail alerts.
- c. Sign up for automatic payments to your credit card.
- d. All of the above.

4. Which of the following entities would be interested in knowing your credit score?

- a. Landlord
- b. Home mortgage lender
- c. Car loan lender
- d. All of the above.

5. The Annual Percentage Rate (APR) on your credit card refers to:

- a. The periodic rate, expressed as an annual amount, used to compute the finance charge on an outstanding balance.
- b. The amount of unused credit you have available.
- c. The maximum amount you can carry as the balance on your credit card.
- d. A fee.

Answers
1. b—Once a year.
2. c—Maximum amount is known as your credit limit.
3. d—All of the above.
4. d—All of the above.
5. a—The periodic rate, expressed as an annual amount, is used to compute the finance charge on an outstanding balance.