

Lesson Seven

Understanding Credit



advantages

Using credit means...

- **you can buy items now.**
- **you don't have to carry cash.**
- **you have a record of your purchases.**
- **convenience.**
- **your bills are combined into one payment.**



disadvantages

Using credit also means...

- **you pay more for items (interest payments).**
- **your credit cards may be lost or stolen.**
- **possible added fees.**
- **you may do more impulse buying.**
- **it's easy to lose track of how much you spend.**
- **possible financial problems.**



your responsibilities

- **Borrow only what you can repay.**
- **Read and understand the credit contract.**
- **Pay debts promptly.**
- **Notify the credit company immediately if you cannot meet payments.**
- **Report lost or stolen credit cards immediately.**
- **Never give your card number over the phone unless you placed the call.**



1. Character

- **Will you repay the debt?**

- **Are you honest and reliable?**

- **Have you used credit before?**

- **Do you pay your bills on time?**

- **Do you have a good credit report?**

- **Do you have character references?**

- **How long have you lived at your present address?**

- **How long have you been at your present job?**



2. Capital

- **What if you don't repay the debt?**

- **Do you have any valuable assets?**

- **Do you own property?**

- **Do you have a savings account?**

- **Do you have investments?**



3. Capacity

- **Can you repay the debt?**

- **Do you earn enough income to support your credit use?**

- **Do you have a steady job?**

- **What is your salary?**

- **How many other debts do you have?**

- **What are your current living expenses?**

- **What are your current debts?**

- **How many dependents do you have?**



building a credit history

- **Establish a steady work record.**
- **Pay all bills on time.**
- **Open a checking account. Don't bounce checks.**
- **Open a savings account. Make regular deposits.**
- **Apply for a local store credit card. Make regular payments.**
- **Get a co-signer on a loan. Pay off the loan as agreed.**



Your Credit Report

Please address all future correspondence to:
Credit Reporting Agency
Business Address
City, State 00000

PERSONAL IDENTIFICATION INFORMATION

Your Name
123 Current Address
City, State 00000

SSN #: 123-45-6789
Date of Birth: July 1, 1958
Telephone Number: (555) 555-5555

EMPLOYMENT DATE REPORTED

Employer Name: Employer 1
Date Reported: 06/2004

Position: Job/Occupation
Hired: 04/2004

PUBLIC RECORD INFORMATION

Lien Filed 03/93; Fulton CTY; Case or Other ID Number-32114; Amount-\$26,667
Class-State; Released 07/93; Verified 07/93

Bankruptcy Filed 12/92; Northern District Ct; Case or Other ID Number-673HC12;
Liabilities-\$15,787; Personal; Individual; Discharged; Assets-\$780

Satisfied Judgment Filed 07/94; Fulton CTY; Case or Other ID Number-898872; Defendant-
Consumer; Amount-\$8,984; Plaintiff-ABC Real Estate; Satisfied 03/95; Verified 05/95

COLLECTION AGENCY ACCOUNT INFORMATION

Pro Coll (800)XXX-XXXX

Collection Reported 05/07; Assigned 09/04 to Pro Coll (800)XXX-XXXX Client-ABC
Hospital; Amount-\$978; Unpaid; Balance \$978; Date of Last Activity 09/04; Individual
Account; Account Number 787652JC

CREDIT ACCOUNT INFORMATION

COMPANY NAME	ACCOUNT NUMBER	WHOSE ACCT.	DATE OPENED	MONTHS REVIEWED	DATE OF LAST ACTIVITY	HGH CREDIT	TERMS	BALANCE	PAST DUE	STATUS	DATE REPORTED
Department St.	32514	J	10/96	36	9/08	\$950	X	\$0	X	R1	10/08
Bank	1004735	A	11/96	24	5/08	\$750	X	\$0	X	I1	4/08
Oil Company	541125	A	6/96	12	3/08	\$500	X	\$0	X	O1	4/08
Auto Finance	529778	I	5/95	48	12/07	\$1100	\$50	\$300	\$200	I5	4/08

Previous Payment History: 3 Times 30 days late; 4 Times 60 days late; 2 Times 90+ days late

Previous Status: 01/08 - I2; 02/08 - I3; 03/08 - 14

COMPANIES THAT REQUESTED YOUR CREDIT FILE

09/06/08	Equifax-Disclosure	08/27/08	Department Store
07/29/08	PRM Bankcard	07/03/08	AM Bankcard
04/10/08	AR Department Store	12/31/07	Equifax-Disclosure ACIS 123456789



what is a debt load?





how much can you afford?

How much can you afford to borrow?

20:

Never borrow more than 20% of your yearly net income.

Example:

You earn \$400 a month after taxes.

Your yearly net income is: $\$400 \times 12 \text{ months} = \$4,800$

20% of your yearly net income is: $\$4,800 \times 20\% = \960

You should have less than \$960 of debt!

10:

Your monthly payments should be less than 10% of your monthly net income.

Example:

You earn \$400 a month after taxes.

10% of your monthly net income is: $\$400 \times 10\% = \40

You should pay less than \$40 per month for all debts!



comparing credit cards

- **Type of account/ Name of card**

- **Acceptability**

- **Annual fee**

- **APR**

- **Grace period**

- **Credit limit**

- **Minimum monthly payment**

- **Late payment fee**

- **Other features**



are you thinking about a credit card?

1. Shop around...

- Look at different sources.

2. Read and understand the contract...

- Read the contract carefully.
- Take your time before you sign.
- Get a copy of your signed contract.

3. Know your cost...

- Figure out total price.
- Make the largest payments possible.
- Know the charges for missed payments.



credit card promotions

**Congratulations!! You have been selected to
receive one of our \$5000 credit cards ...**

5% Cash Back on Purchases!

No Annual Fee!

0% Introductory APR!

BAD CREDIT? IT'S OKAY ... YOU'RE APPROVED!

School is tough enough but choosing the best credit card to get you
through is a breeze...

YOU CAN'T BE TURNED DOWN!

Earn points towards free merchandise!

GUARANTEED INSTANT APPROVAL

No Credit? It's Okay ... You're Approved!

This cool card comes loaded with a great low interest rate, photocard
ID, and super discounts on stuff you really want.

NO Co-Signer and NO Minimum Credit Required

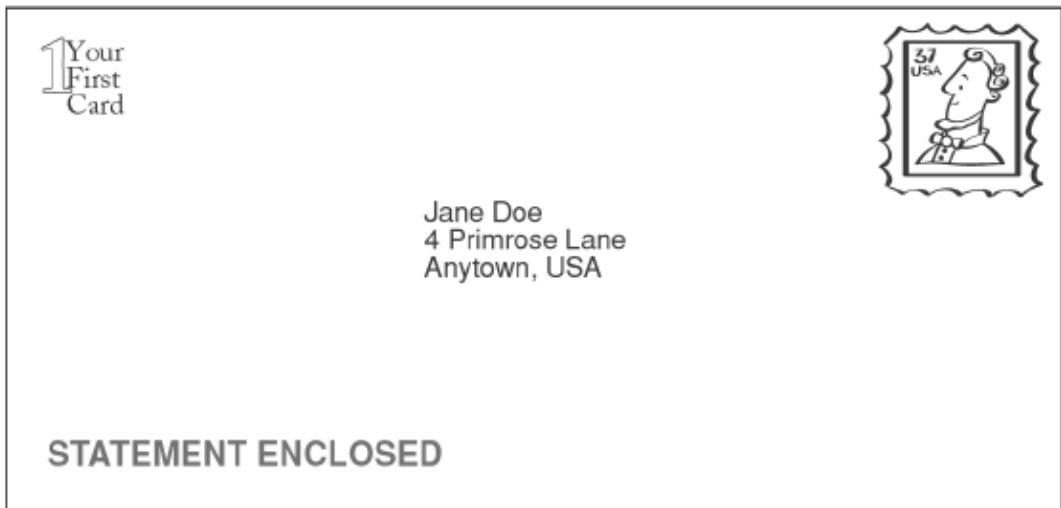
Money-Saving Student Special Offers

There are no job or credit checks.

You can't afford to pass this up!



keep it or discard it?





reading a credit card statement

SEND PAYMENT TOBox 1234
Any Town, USA**CREDIT CARD STATEMENT**

ACCOUNT NUMBER	NAME	STATEMENT DUE	PAYMENT DUE DATE
4125-239-412	John Doe	2/13/09	3/09/09

CREDIT LINE	CREDIT AVAILABLE	NEW BALANCE	MINIMUM PAYMENT DUE
\$1200.00	\$1074.76	\$125.24	\$20.00

REFERENCE	SOLD	POSTED	ACTIVITY SINCE LAST STATEMENT	AMOUNT
463GE7382		1/25	PAYMENT THANK YOU	-168.80
32F349ER3	1/12	1/15	RECORD RECYCLER ANYTOWN, USA	14.83
89102DIS2	1/13	1/15	BEEFORAMA REST ANYTOWN, USA	30.55
NX34FJD32	1/18	1/18	GREAT ESCAPES BIG CITY, USA	27.50
84RT3292A	1/20	1/21	DINO-GEL GASOLINE ANYTOWN, USA	12.26
973DWS321	2/09	2/09	SHIRTS 'N SUCH TINYVILLE, USA	40.10

Previous balance	(+) 168.80	Current Amount Due	125.24
Purchases	(+) 125.24	Amount Past Due	
Cash Advances	(+)	Amount Over Credit Line	
Payments	(-) 168.80	Minimum Payment Due	20.00
Credits	(-)		
FINANCE CHARGES	(+)		
Late Charges	(+)		
NEW BALANCE	(=) 125.24		

FINANCE CHARGE SUMMARY	PURCHASES	ADVANCES	For Customer Service Call: 1-800-xxx-xxxx
Periodic Rate	1.65%	0.54%	For Lost of Stolen Card, Call: 1-800-xxx-xxxx
Annual Percentage Rate	19.80%	6.48%	24Hour Telephone Numbers

Please make check or money order payable to Your First Bank. Include account number on front.



warning signs of financial difficulties

- You don't know how much you owe.
- You often pay bills late.
- You obtain a new loan to pay old loans.
- You pay only the minimum balance each month on credit cards and other charge accounts.
- You spend more than 20% of your net income (after paying rent) on loans and credit card payments.
- You would have an immediate financial problem if you lost your job.
- You are spending more than you earn.
- You use savings to pay day-to-day expenses.





first steps to take if you can't pay your bills



Take a close look at your budget.

- Trim your expenses.
- Be realistic about what you can afford.

Contact your creditors.

- Tell them: why you can't pay.
 that you intend to pay.
 when/how much you will be able to pay.
- Ask if you can work out a new payment schedule.
- If possible, continue to make minimum payments.



National Foundation for Consumer Credit (NFCC)

- **Offers information on financial and consumer topics.**
- **Reviews your income.**
- **Helps you set up a realistic personal budget.**
- **May contact your creditors and make arrangements for reduced payments on your bills.**
- **Helps you plan for future expenses.**
- **Services may be available for no charge or reasonable fee.**
- **Listed in yellow pages under “credit counseling.”**

Watch out for “credit repair” companies!

- **Offer for-profit counseling.**
- **May advertise they can erase a poor credit history quickly — DON'T BELIEVE IT!**