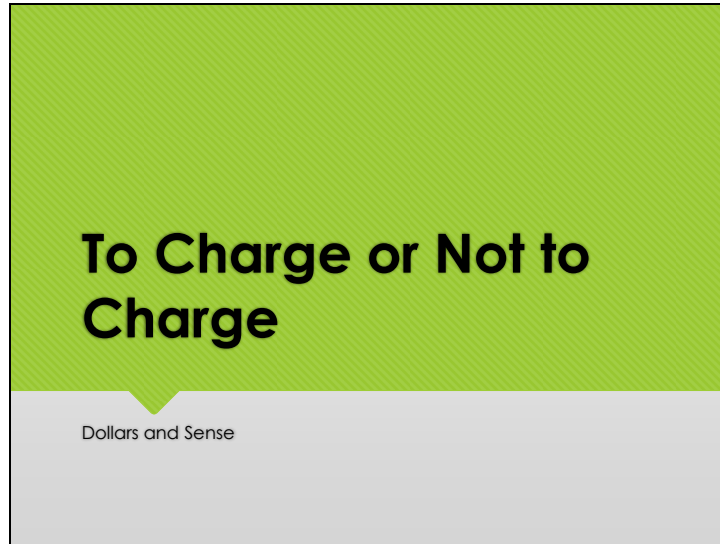


Presentation Notes To Charge or Not to Charge

Slide 1



Credit can be your friend or your enemy. It is important to understand the responsibilities associated with credit before you use it. Credit is your friend when you use it to purchase an item that is an investment or when you purchase something that provides you with earning power. It is your enemy when you have obligated so much of your future income that you have no money to live on after paying your bills.

Presentation Notes To Charge or Not to Charge

Slide 2

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Presentation Notes To Charge or Not to Charge

Slide 3

Two Common Types of Credit

- **Installment credit** allows the borrower to make monthly payments on principal and interest. 
- **Revolving credit**, such as a credit card, allows the consumer to borrow up to a set maximum amount. 

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Two common types of credit are installment credit and revolving credit. Installment credit is used to purchase large ticket items such as a house, car, or furniture. You pay a fixed payment every month for a set number of payments or until the loan is paid off. An example of revolving credit is credit cards. Consumers will charge, make payments, charge more and the cycle continues. The interest rate on revolving credit is usually much higher than installment credit, and revolving credit is often used for items that you do not really need.

Presentation Notes To Charge or Not to Charge

Slide 4

Installment Credit

- Mortgage loans
- Automobile loans
- Installment loans



- Total purchase amount
- Required down payment
- Total financed amount
- Finance charges
- Number of payments
- Payment amounts
- Payment schedule

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Installment credit is a set amount for a specific purpose. If you purchase a washing machine on installment credit, a credit contract will be executed to cover the purchase and repayment terms. If you later decide to purchase a dryer, a new contract will be executed.


Mortgage loans, automobile loans and installment loans are examples of installment credit. When you apply for installment credit, a credit contract is executed which spells out specifics of the loan and repayment terms. For example, the contract may include the total purchase amount, amount of any required down payment, total financed amount, finance charges, number of payments, payment amounts and payment schedule.

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Slide 5

Common Forms of Installment Loans

- Installment sales credit
- Installment cash credit
- A single-payment loan



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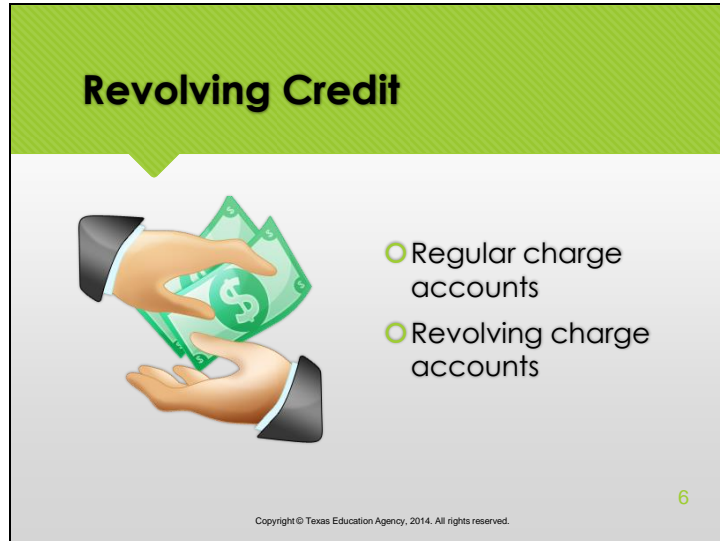
Installment sales credit is a loan for the purchase of expensive goods or services. To obtain installment sales credit, the consumer usually makes a down payment or trade-in and signs a credit contract to repay the balance. Consumers often purchase high-priced merchandise like automobiles or major appliances through installment sales credit.

Installment cash credit is a direct cash loan which is repaid with interest in monthly installments over a specified period. Consumers use installment cash credit to finance such personal expenses as vacations or home improvements.

A single-payment loan is a loan which is repaid at a given time in a single lump-sum amount, which includes finance charges. A single-payment loan might be used to purchase a single item or meet a specific financial need.

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Slide 6



Revolving Credit

- Regular charge accounts
- Revolving charge accounts

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Revolving credit allows repeated loans up to a set maximum amount. As long as the total unpaid balance is below the maximum, additional purchases can be charged without having to reapply. If you purchase a washer on revolving credit and later want to purchase a dryer, the dryer purchase could be added to the same revolving credit account as long as the total unpaid balance does not exceed the maximum allowed. Regular charge accounts and revolving charge accounts are examples of revolving credit.

Regular charge accounts allow consumers to purchase goods and services on credit and pay in full within the specified time, usually twenty-five to thirty days after billing. Monthly statements are sent, and no finance charge is assessed if the bill is paid on time. Utility bills and some store charge accounts are examples of regular charge accounts.


Revolving charge accounts give consumers the choice of paying in full or paying at least a specified minimum portion of the unpaid balance each month. If payment is made in full on time, there is no finance charge. If a balance is carried over, a finance charge applies to the unpaid balance. The most common revolving charge accounts are credit cards issued by department stores, national retailers or petroleum companies and banks.

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Slide 7

Advantages of Using Credit

- Helps you make larger purchases
- Eliminates the need to carry cash
- Helps you establish credit history (as long as you pay your bills on time)



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So if credit is so costly, why would anyone ever want to use it? There are some things, like a house, that would require years of saving to pay for in cash. Meanwhile, if you are spending money on rent you are not making any kind of investment, so it makes sense to purchase a home. Many people purchase a car on credit. A car provides transportation to your job which in turn provides you with money to live on. This is likely a wise credit choice. Credit cards can eliminate the need to carry cash, but you can also use a debit card. Do not confuse credit cards with debit cards. A debit card is often used like a credit card, but the money comes out of your checking account. A credit card is a loan that you pay back with interest. One of the biggest advantages of using credit when you are young is to help you establish a credit history. Make sure you make your payments on time to help you establish a good credit history. A few other good reasons to have a credit card are to rent a car or make a motel reservation online or over the phone.

Presentation Notes To Charge or Not to Charge

Slide 8

Disadvantages of Using Credit

- Credit can be costly
- It can tempt us to overspend
- It can do long-term financial damage



If you borrow \$3,000.00 on a credit card at 21% interest and only pay the minimum payment of 2%, it will take 30 + years to pay off the balance.

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Although it is good to have a credit card for emergencies, it can be a major temptation to use on things we want and do not have the money to pay for. If we obligate too much of our future income, our spendable income is less. Revolving credit comes with a high rate of interest and is costly. If you charge too much and have trouble paying it back, it can do long-term financial damage.


How much will you end up paying at the end of 30 years? Over \$15,515!!! That is how much it will cost you to use your credit card. Is it worth it?

Presentation Notes To Charge or Not to Charge

Slide 9

Spending Your Future Income

- When you buy things on credit, you are obligating your future income.
- Items that are investments, such as a home, or items that are tools to help you earn money, such as a car to get to work.



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What does obligating future income mean? If you purchase a home on a 30-year loan term and your payments are \$800.00 a month, you have obligated, or already spent, \$800.00 of your income every month for the next 30 years. This might be fine because you do need a place to live. What if you used credit at a department store to purchase a new shirt that you liked but really did not need? In this case, is credit your friend or enemy? I hope you are thinking enemy. When we obligate our future income, we need to do it wisely. Purchasing something on credit that we do not need is not a wise choice.

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Slide 10

Finance Charges

Total finance charges paid will depend upon the amount financed, the annual percentage rate and the length of the repayment period.



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Credit is a service which must be paid for. When credit is extended in the marketplace, the amount you repay will include the initial amount borrowed plus the finance charge. The finance charge is the total amount the consumer pays for using credit. Finance charges include interest rates and other applicable costs such as service charges or credit-related fees.

Presentation Notes To Charge or Not to Charge

Slide 11

Annual Percentage Rate (APR)

Amount financed	Total interest charges are proportional to the amount financed
Annual percentage rate	As the APR rate goes up, the total finance charges increase
Length of repayment period	The longer the repayment period, the higher the finance charges

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Under the Truth in Lending Law Act, creditors are required to inform consumers in writing of the finance charge and the annual percentage rate on all credit purchases. The APR is the cost of credit expressed as a yearly rate. To make it easier for consumers to understand and compare interest rates, lenders are required to report interest in terms of this standard APR.

Presentation Notes To Charge or Not to Charge

Slide 12

Truth in Lending Law Act (TILA)

This law protects you against inaccurate and unfair credit billing and credit card practices. It requires lenders to provide you with loan cost information so that you can comparison shop for certain types of loans.



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Finance charges paid by consumers will vary. Under the Truth in Lending Law Act (TILA), you have a right of rescission, which allows you three days to reconsider your decision and back out of the loan process without losing any money. This right helps protect you against high-pressure sales tactics used by unscrupulous lenders. TILA does not tell banks how much interest they may charge or whether they must grant a consumer a loan.

Presentation Notes To Charge or Not to Charge

Slide 13

Cash versus Financing		
Cash purchase of car	Total Paid \$5,000.00	Interest paid \$0
\$5,000.00 financed 36 months at 9% interest 36 payments of \$159.00	\$5,724.00	\$724.00
\$5,000.00 financed 48 months at 9% interest 48 payments of \$124.00	\$5,973.00	\$973.00

The longer the term of your loan, the more interest that you pay.

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Here is a chart showing an example of the cost of financing. Two things affect how much you pay to borrow money. One is the rate of interest and the second is the length of the term of the loan. In the example above, you would pay \$249.00 more in interest if borrow for four years instead of three years. You are better off borrowing for three years if you can handle the \$159.00 monthly payment. Think about the things you might be able to spend \$249.00 on if you did not spend it on interest. Wise credit choices will give you more spendable income.


Presentation Notes To Charge or Not to Charge

Slide 14

Building a Credit History

- How many times have you borrowed money?
- Did you pay it back on time?
- Were your payments late?

When you sign up for and pay utilities, you are building your credit history.



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Building a good credit history is important because at some point you are going to want to borrow, and your credit history determines your credit score. Future employers sometimes look at credit reports because if you are responsible with your finances, you will likely be responsible at work. It is important to limit what you borrow and pay it back on time.

Presentation Notes To Charge or Not to Charge

Slide 15

Credit Scoring and Credit Reports

- Credit bureaus provided credit reports to potential lenders and employers.
- The "Fair Credit Reporting Act" limits the sharing of financial information to firms that have a legal purpose to evaluate this information.
- You may access your credit report every 12 months free of charge.



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By law, only firms that have a legal purpose can evaluate your credit report. The most common people who are provided with information are future employers and potential lenders. You may also have access to your credit report every 12 months free of charge. It is a good idea to review your credit report so you are aware of what is on the report and can check for mistakes.

You may obtain a free credit report online such as at <http://www.freecreditreport.com>.

Presentation Notes To Charge or Not to Charge

Slide 16

What is in a Credit Report?



The illustration shows a credit report document with an airplane icon, a credit card, and two green banknotes, all set against a light blue background. The credit report document is tilted and features an airplane icon and the word 'CREDIT'. The credit card is positioned below the report, and two green banknotes are to the right. The entire illustration is centered on a light gray background.


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Slide 17

What is in a Credit Report?

- Credit report score
- Personal information
- Public record information
- Collection agency account information
- Credit account information
- Inquires



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Your credit report will have a credit report score, personal information such as name, address, public record information, collection agency account information (if you have not paid your bills and bills were turned over to a collection agency), credit account information which includes everyone you have borrowed from and inquiries from potential lenders. It is not a good idea to apply for credit unless you are serious about borrowing. All those inquiries go on your credit report. Department stores will often offer 10-20% discounts to sign up for a credit card. Make sure it is a credit card you want before you fall into that trap. Most credit information stays on your credit history for seven years. One thing that stays on your credit history forever is student loans, so you want to be careful about paying back what you borrow for your education.

Presentation Notes To Charge or Not to Charge

Slide 18

Tips to Improve Your Credit Score

- Pay bills on time
- Keep credit cards and other revolving credit balances low
- Pay off debt rather than moving it around

Over half of all consumers have a credit score that is 700 or above

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Here is a list of tips to improve your credit score. You want to aim to have a score over 700. Just like grades on your report card, the higher the better.

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Slide 19

**What are the Most Important Factors
Affecting Your Credit Score?**

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Presentation Notes To Charge or Not to Charge

Slide 20

Factors Affecting Your Credit Score

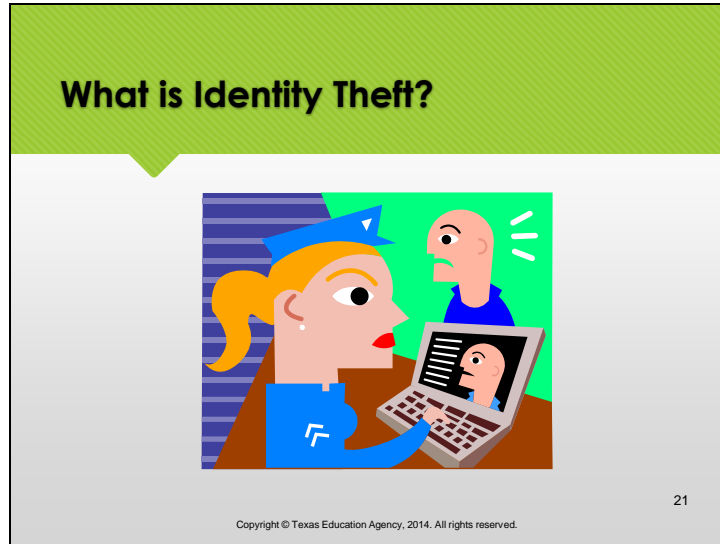
- Payment History
- Amount Owed
- Length of History
- New Credit
- Types of Credit

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These are the factors that affect your credit score. The biggest factor is payment history, with the second biggest factor being the amount owed. If you already have a large percentage of your income obligated in loans, you may not be able to afford to borrow more. The third is the length of history. If you have had a credit card a long time and made your payments, that shows dependability. The fourth factor is new credit. If you have a lot of new credit, it might indicate that you are having financial trouble and need more credit to get by, which means that you might have trouble paying it back in the future. The last factor is the type of credit. Creditors are looking to see if you are using credit wisely. A loan on a house, car or student loan are examples of money borrowed for an investment or a tool for earning power. Department store credit cards indicate credit used to satisfy wants.

Presentation Notes To Charge or Not to Charge

Slide 21



Have students brainstorm the definition of identity theft.

Ask the class how they think it can be prevented or detected.

Presentation Notes To Charge or Not to Charge

Slide 22

Ways to Protect Against Identity Theft

- Avoid keeping pin numbers or social security numbers in your wallet
- Don't give any information over the phone unless you initiate the phone call
- Have your mail held while on vacation
- Install firewalls and virus software on your computer
- Keep a list of credit cards
- Mail bills at the post office
- Shop online only at secure sites
- Use a locked mailbox

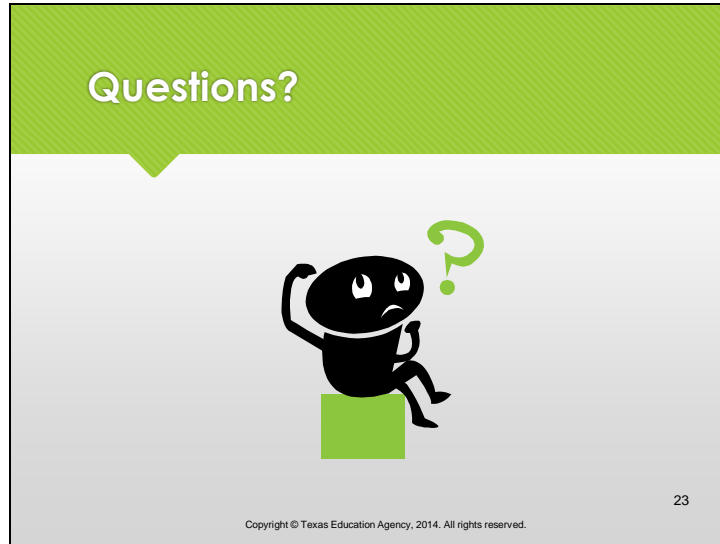
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You need to protect yourself from identity theft. Here is a list of ways that you can do that.

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Slide 23



Questions?

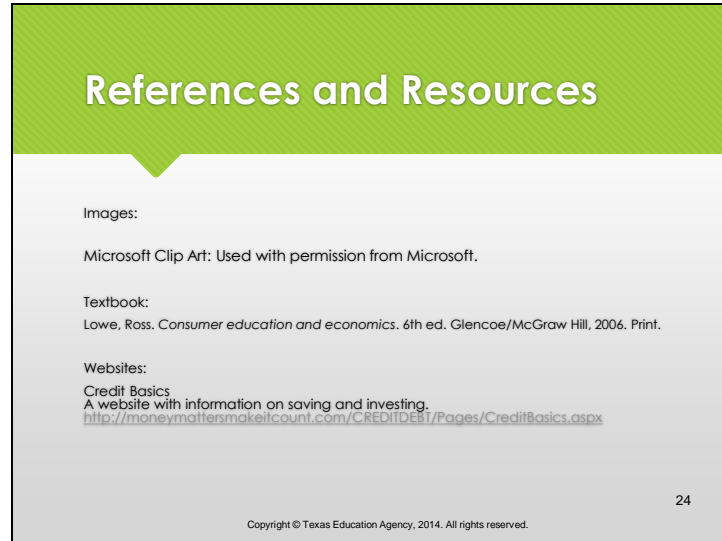
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The slide features a green header with the text "Questions?". Below the header is a white area with a black cartoon character sitting on a green square. The character has a question mark above its head. In the bottom right corner of the white area, the number "23" is displayed. At the bottom of the slide, there is a copyright notice: "Copyright © Texas Education Agency, 2014. All rights reserved."

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References and Resources

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Mortgage Rates, Home Loans, Refinancing, Credit Cards, CD Rates with Personal Finance Advice
Information on all banking services including an interest calculator.
<http://bankrate.com/>

The Leading Practical Money Skill Site on the Net
Interactive games concerning budgeting, banking, credit and money management.
<http://www.practicalmoneyskill.com/foreducators/lessonplans/highschool.php>

What Is Financial Planning?
Information on the benefits of investing.
<http://www.fpanet.org/WhatIsFinancialPlanning>

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