Give Me Some Credit
What is Credit?
What is Credit?

A term used to describe any situation in which goods, services or monies are received in exchange for a promise to pay a definite sum at a later date.
Credit Card vs. Debit Card
Credit Statistics

According to First Command Educational Foundation:

• 862 million credit cards and debit cards in the United States
• 20% of American have “maxed out” their credit cards
• Typical household has an average of $8400 in credit card debt and pays $83 in interest each month
• Average college student has $3200 in credit card debt
Pros and Cons of Credit
Pros of Credit

- Convenience
- No cash to carry
- Online and phone orders
- Establish credit
- Emergency situations
Cons of Credit

- Overspend
- Finance charges
- Late payments
- Debt
- Interest payments
- Non-payment
- Possibility of identity theft
Pros and Cons of Credit
Think, Pair, Share

- Think about the Pros and Cons of Credit
- Turn to your neighbor
- Share your thoughts

Let’s compare your thoughts with what financial experts have discovered.....
4 C’s of Credit

- Character
  - Creditworthiness, demonstrated by consumers history of making payments and responsible use of credit
- Capacity
  - Amount of debt a borrower is able to handle
- Capital
  - Valuable assets such as real estate, savings, or investments that could be used to repay credit debts if income is unavailable
- Collateral
  - Assets pledged as security for a debt
Types of Credit

- Single Payment - Items and services are paid for in a single payment, within a given time period. Interest is usually not charged.
Types of Credit

- Installment Credit - Paid in two or more scheduled payments for a set amount. Interest is charged.
Types of Credit

- Revolving Credit - Items purchase must not exceed the set credit limit. Payments are made on regular time intervals. Interest is charged based on the remaining balance.
All About Interest

Money paid regularly at a particular rate for the use of money lent, or for delaying the repayment of a debt.

- **Annual Percentage Rate (APR)**
  - Cost of the loan on a yearly rate, expressed as a percentage.
- **Grace Period**
  - Additional time allowed to make a payment before it is considered late

Increases the actual cost of the item
Obtaining Credit

- Establish a relationship with a bank by setting up a checking account
- Complete an application for approval for a credit card
- If not approved, determine why you were denied
- Try obtaining credit with a department store to establish credit
- Ensure your credit limit is within your financial range and you will be able to make the monthly payment
Determining Your Credit Limit

- Total debt should not be more than 20% of your yearly income
  - Example: $6000/year x 20% = $1200

- Total monthly payment should not exceed 10% of your monthly income
  - Example: $500 x 10% = $50
Questions?
Resources and References

Images:
• Microsoft Office Clip Art: Used with permission from Microsoft

Websites:
Consumer’s Guide: Credit
http://www.federalreserve.gov/creditcard

Federal Deposit Insurance Corporation FDIC
Article - Debit vs. Credit Cards: How They Stack Up

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http://www.financiallitnow.org/index.shtml

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The New York Times
Money Guides: Debit and Credit Cards