Money Matters: Making Cents of It All

Dollars and Sense
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What are some sources of credit?
Sources of Credit

- Commercial bank
- Credit card company
- Credit union
- Department store
- Family and friends
- Finance company
- Furniture company

- Life insurance company
- Loan sharks
- Pawn shop
- Payday cash advance
- Saving and loan association
- Utility company
Credit: Closed and Opened
Closed-end Credit

Closed-end credit, or installment credit, is for a specific purpose and a set amount. The contract may include:

- amount of any required down payment
- finance charges
- number of payments
- payment schedule
- payment amounts
- the total purchase amount
- total financed amount
Common Forms of Installment Loans

- Installment cash credit
- Installment sales credit
- Single-payment loan
Open-end Credit

Open-end credit, or 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.

- Regular charge accounts
- Revolving charge accounts
What are the advantages of using credit?
Advantages of Using Credit

- Allows consumers to take advantage of sales or special promotions
- Builds consumers credit score/history
- Enables purchase of items not otherwise affordable
- Facilitates ordering by mail or Internet
- Helpful when making travel reservations
- Helps with emergencies
- May be used to finance education
- Offers convenience
- Permits immediate consumption
What are the disadvantages of using credit?
Disadvantages of Using Credit

- Encourages impulse spending
- Fuels the temptation to overspend
- If improperly used, can lead to serious problems, including repossession of property or bankruptcy
- Increases the risk of identity theft
- Is costly
- Reduces financial flexibility in personal money management
- Ties up future income
Credit Cards, Debit Cards and Gift Cards

Minimum Payments on Credit Cards

(click on picture)
Credit Cost Comparison

<table>
<thead>
<tr>
<th></th>
<th>Previous Balance</th>
<th>Adjusted Balance</th>
<th>Average Daily Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Balance</strong></td>
<td>$300.00</td>
<td>$300.00</td>
<td>$300.00</td>
</tr>
<tr>
<td><strong>Payments</strong></td>
<td>$100.00</td>
<td>$100.00</td>
<td>$100.00</td>
</tr>
<tr>
<td><strong>Closing Balance</strong></td>
<td>$200.00</td>
<td>$200.00</td>
<td>$200.00</td>
</tr>
<tr>
<td><strong>Monthly Rate</strong></td>
<td>1.5%</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>Actual Credit Charge</strong></td>
<td>$4.50 (.015 x $300.00)</td>
<td>$3.00 (.015 x $200.00)</td>
<td>$3.75 (.015 x $250.00)</td>
</tr>
</tbody>
</table>

* Assuming that the payment was made in the middle of the month, the average daily balance would be $250.00
How can you establish credit?
Establishing Credit

- Apply for a gasoline credit card
- Apply for a small credit account at a local retail store at which you shop
- Get a job
- Open a checking account, and manage it carefully
- Open a savings account, and make regular deposits
The Four Cs of Credit

CAPACITY
- Capacity refers to earning power of regular income available to repay debts.

CAPITAL
- Capital refers to financial worth, including savings and property.
The Four Cs of Credit

CHARACTER

- Character refers to a person’s reputation for honesty and reliability as demonstrated through stable credit history.

COLLATERAL

- Collateral refers to items of value, such as a house, boat or car, that lenders may require in return for a loan in the event the loan is not repaid.
What are the responsibilities of credit users?
Responsibilities of Credit Users

• Be aware of the promises you make in signing any credit agreement.

• Borrow the smallest amount needed, not the most the lender or dealer will loan.

• Compare the cost of interest to other things you could do with the money.

• Do not borrow unless it is necessary and will enable you to make money.

• Do not let easy credit cause you to buy things you would not otherwise consider buying.

• Recognize and accept the penalty outlined in the contract for failure to fulfill the promise.
Responsibilities of Credit Users

• Know what you are borrowing and signing. Read carefully any contract that must be signed, and be sure you understand it.

• Let the creditor know if, for any reason, you cannot meet the payment.

• Pay on time according to the terms of the contract.

• Pay the late charge written in the contract for late payments.

• Shop for the lowest annual percentage rate.

• Think of your overall financial state.
What are the responsibilities of creditors?
Responsibilities of Creditors

- Give the credit customer a copy of the contract.
- Look into the customer’s ability and willingness to repay before giving credit.
- Pass on to the customer any money over the amount owed on any item after repossession and sale of property or collateral.
- State credit terms clearly and correctly to follow laws controlling the giving of credit.
- Early payoffs, return any interest charges that are reimbursable under the terms of any early payoff provisions.
- Write in all credit terms before the contract is signed.
Dealing with Debt Collectors

(click on picture)
Credit Bureau/Credit-Reporting Agency

What is a credit bureau or credit-reporting agency?

These companies do two things:

- compile credit histories on prospective borrowers
- provide credit reports to lenders

(click on picture)
Questions?
References and Resources

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Textbooks:

Websites:
- Business and Money
  Articles on money and economics.
- Decision-Making Skills and Techniques
  Source: Time Management Guide
  We use our decision-making skills to solve problems by selecting one course of action from several possible alternatives.
- Decision Making-Skills
  Source: Mind Tool
  A systematic approach to decision-making will help you address the critical elements that result in a good decision.
  [http://www.mindtools.com/pages/article/newTED_00.htm](http://www.mindtools.com/pages/article/newTED_00.htm)
References and Resources

- **Economy 101: What's It All About**
  Source: Practical Money Skills
  Understanding money and the economy.
  [http://www.practicalmoneyskills.com](http://www.practicalmoneyskills.com)

- **Plus: The Decision-Making Process**
  Source: Ethics Resource Center
  Explains the six steps of the decision-making process.

- **Six Thinking Hats**
  Source: Mind Tools
  Looks at a decision from all points of view.

- **TheMint.org**
  Tips and tools for managing money for teens.
  [http://www.themint.org/teens](http://www.themint.org/teens)

Videos:

- **Check Your Credit Report**
  An important message from the Federal Trade Commission.
  [http://bcove.me/mwbzp3ui](http://bcove.me/mwbzp3ui)

- **Dealing with Debt Collectors**
  If you’re behind on payments, you’ll probably be hearing from debt collectors. Federal law gives you certain rights in dealing with debt collectors. It’s important to understand those rights when communicating with them.
  [http://bcove.me/t6s6l7lf](http://bcove.me/t6s6l7lf)

- **Minimum Payments on Credit Cards**
  This video shows what happens when someone makes just the minimum payment on a credit card balance.
  [http://bcove.me/2h4a5k2s](http://bcove.me/2h4a5k2s)