Money Matters: Making Cents of It All

Dollars and Sense
What are some sources of credit?

Ask this question, and allow for discussion.
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

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Lead students to classify each under one of the categories:

- Sales credit – credit extended to purchase goods and services
- Cash credit - credit used to borrow money

What are familiar sources of credit in the community?
What sources of credit provide cash credit?
What sources of credit provide sales credit?
What is a loan shark? There are also illegal lenders, more commonly referred to as "loan sharks," who operate without license or supervision and thrive on the business of low-income or credit-pressed consumers. The lowest interest rate commonly charged by a loan shark is 120
percent per year. The average rate is approximately 20 percent per week, which is 1,040 percent per year. High interest rates are not the only evil connected with illegal lenders.

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Consumer credit can be closed-end or open-end. Closed-end credit encompasses one-time loans for a specific time period. Open-end credit refers to loans available on an ongoing basis within set credit limits.
Closed-end credit, or installment credit, is for a specific purpose and a set amount. If you purchase a washing machine on closed-end credit, a credit contract will be executed to cover 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 closed-end credit. When you apply for closed-end 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.
Common forms of installment loans:

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

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.

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.
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. 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 open-end 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 is applied to the unpaid balance. The most common revolving charge accounts are credit cards issued by department stores, national retailers or petroleum companies and banks.
What are the advantages of using credit?

Ask this question, and allow for discussion.
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?

Ask this question, and allow for discussion.
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

How much credit is too much? (For example, two guidelines might be a twenty percent of net income limit and the debt-to-income ratio.)
Where can you turn when you are in over your head in credit debt?
Credit, debit and gift cards have made the access to credit more convenient, but they come with terms and conditions that consumers should understand. Laws that went into effect in 2010 provide added protection to consumers.

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
A revolving charge account enables a customer to charge up to a stated limit. The customer pays a certain amount on his account each month. Interest is charged on the unpaid balance. Although most businesses charge a similar monthly rate, the actual credit will vary depending on how the customer’s monthly balance is determined. Three common methods are to use the previous balance before any payments have been deducted, the adjusted balance after deducting payments, or the average daily balance on the account. Actual charges for these three methods are compared on the chart.
How can you establish credit?

Ask this question, and allow for discussion.
Establishing Credit

- Apply for a gasoline credit card. Use it occasionally. Repay and promptly pay in full.
- Apply for a small credit account at a local retail store at which you shop. (You might begin with a layaway purchase.) Use the account to make small purchases for which you usually pay cash. Repay and promptly pay in full.
- Get a job. Show that you can earn money and manage some income.
- Open a checking account, and manage it carefully. Be sure to avoid overdrafts.
- Open a savings account, and make regular deposits.

As you prove you can manage credit, you will become eligible for larger and varied types of credit. Develop the habit of using credit sparingly, always considering up front whether you can repay promptly.
The Four Cs of Credit explain the relation of an individual’s capacity, capital, character and collateral to that individual’s credit rating (a creditor’s evaluation of a consumer’s willingness and ability to repay debts). You may opt to provide examples of credit applications for students to examine and identify information requested that helps the creditor evaluate each of the four “Cs.”

Capacity refers to earning power of regular income available to repay debts. The debt-to-income ratio, which is the total monthly debt payment divided by net take-home pay, is an indicator of an individual’s capacity to repay new debts. Questions on the credit application related to occupation, income, length of employment and other debts which may reduce monthly income help the creditor evaluate the applicant’s capacity to repay the debt.

Capital refers to financial worth, including savings and property. The creditor is looking for evidence that the applicant possesses things of value and is thus more likely to be able to repay the debt. Information on the credit application related to savings accounts, other investments or home ownership are indicators of capital.
The Four Cs of Credit

Character refers to a person’s reputation for honesty and reliability as demonstrated through stable credit history. A credit application will ask for credit references to learn where credit has previously been granted. Length of time at a job or a residence are indicators of stability. Through a credit investigation, the creditor will learn information such as how much credit has previously been extended and whether the applicant pays bills on time.

Collateral refers to items of value that lenders may require in return for a loan in the event the loan is not repaid.
What are the responsibilities of credit users?

Ask this question, and allow for discussion.
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 include:

- Know what you are doing 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.

Why is credit card use a serious problem for many young adults?
What are the responsibilities of creditors?

Ask this question, and allow for discussion.
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.

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Summarize credit guidelines for both purchaser and seller. Emphasize the importance of clearly understanding all terms of the contract before entering into any credit agreement.
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

What consumer credit legislation protects consumers when they use credit?
What are the common examples of credit card fraud? What precautions can prevent you from being a victim of credit card fraud?
What is a credit bureau or credit-reporting agency?
These companies do two things: compile credit histories on prospective borrowers and provide credit reports to lenders.
Information in a credit report may include payment habits, number of credit accounts, balance of accounts and length and place of employment. Lenders use these reports when making decisions on extending credit.

Free Credit Reports
The Fair Credit Reporting Act (FCRA) requires each of the nationwide credit reporting companies — Equifax, Experian and TransUnion — to provide you with a free copy of your credit report, at your request, once every twelve months. The FCRA promotes the accuracy and privacy of information in the files of the nation’s credit reporting companies. The Federal Trade Commission (FTC), the nation’s consumer protection agency, enforces the FCRA with respect to credit reporting companies.
A credit report includes information on where you live, how you pay your bills and whether you’ve been sued or have filed for bankruptcy. Nationwide credit reporting companies sell the information in your report to creditors, insurers, employers and other businesses that use it to evaluate your applications for credit, insurance, employment or renting a home.
You can order a free credit report:
On the Internet: www.annualcreditreport.com
On the phone: call 1-877-322-8228
By mail - complete the Annual Credit Report Request Form found at: https://www.annualcreditreport.com/cra/requestformfinal.pdf - PDF 41k (PDF Help)
and mail to:
Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

Check Your Credit Report
An important message from the Federal Trade Commission.
http://bcove.me/mwbzp3ui
Questions?
Presentation Notes
Money Matters: Making Cents of It All

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References and Resources

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Textbooks:

Websites:
- "Decision Making Skills and Techniques."
- "Deciding on a course of action involves analyzing positive and negative alternatives."
- http://www.decision-making-guide.com/decision-making-skills-and-techniques-
- "A systematic approach to decision-making will help you address the critical elements that result in a good decision."
- http://www.decision-making-guide.com/decision-making-skills-and-techniques-

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References and Resources

- Income Tax: What is it all about?
  Source: Texas State Tax Finance Information
  http://www.tax.state.tx.us/

- Put the Decision Making Process into Action:
  Source: Texas A&M University
  http://www.tamu.edu/pas/wvsa/decision-making-process-

- Brainstorming Tools:
  Source: University of Texas at Austin
  http://www.utexas.edu/student/learningזכית.html

- The Five Questions of Effective Decision Making:
  Source: Texas A&M University
  http://www.tamu.edu/pas/wvsa/decision-making-process-

- The MYOB Guide to Managing Money:
  Source: Texas A&M University
  http://www.tamu.edu/pas/wvsa/decision-making-process-

Video:
- Check Your Credit Score:
  Source: Federal Trade Commission
  http://www.ftc.gov/bcp/consumer-ed/credit-score

- Refining Your Credit History:
  Source: Federal Trade Commission
  http://www.ftc.gov/bcp/consumer-ed/credit-score

- Money Management:
  Source: Federal Trade Commission
  http://www.ftc.gov/bcp/consumer-ed/credit-score

- Credit Score Monitoring:
  Source: Federal Trade Commission
  http://www.ftc.gov/bcp/consumer-ed/credit-score

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