Lesson Seven

Understanding Credit

Practical Money Skills
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.
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.
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?
4. Collateral

- Do you have assets that can be leveraged against the debt?

- What assets do you have, such as a car or property?
5. Conditions

- Have you been working regularly in an occupation that is likely to provide enough income so that you can repay?

- Are current economic conditions, like a recession, a consideration?

- What are standard interest rates in the current economy?
- 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, 1993
Telephone Number: (555) 555-5555

EMPLOYMENT DATE REPORTED

Employer Name: Employer 1
Employer 2
Date Reported: 06/2014
Position: Job/Occupation
Hired: 04/2014

PUBLIC RECORD INFORMATION

Lien Filed 03/13; Fulton CTY; Case or Other ID Number-32114; Amount-$26,667
Class-State: Released 07/13; Verified 07/13
Bankruptcy Filed 12/12; Northern District Ct; Case or Other ID Number-673HC12;
Liabilities-$15,787; Personal; Individual; Discharged; Assets-$780
Satisfied Judgment Filed 07/14; Fulton CTY; Case or Other ID Number-898872; Defendant-
Consumer; Amount-$8,984; Plaintiff-ABC Real Estate; Satisfied 03/15; Verified 05/15

COLLECTION AGENCY ACCOUNT INFORMATION

Pro Coll (800)XXX-XXXX
Collection Reported 05/17; Assigned 09/17 to Pro Coll (800)XXX-XXXX Client-ABC
Hospital; Amount-$978; Unpaid; Balance $978; Date of Last Activity 09/16; Individual
Account; Account Number 787652JC

CREDIT ACCOUNT INFORMATION

<table>
<thead>
<tr>
<th>COMPANY NAME</th>
<th>ACCOUNT NUMBER</th>
<th>WHOSE</th>
<th>OPENED</th>
<th>DUE</th>
<th>HIGH</th>
<th>TERMS</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department St.</td>
<td>22514</td>
<td>J</td>
<td>10/12</td>
<td>9/18</td>
<td>$850</td>
<td>X</td>
<td>$0</td>
</tr>
<tr>
<td>Bank</td>
<td>1004735</td>
<td>A</td>
<td>11/13</td>
<td>6/18</td>
<td>$750</td>
<td>X</td>
<td>$0</td>
</tr>
<tr>
<td>Oil Company</td>
<td>541125</td>
<td>A</td>
<td>06/16</td>
<td>3/18</td>
<td>$500</td>
<td>X</td>
<td>$0</td>
</tr>
<tr>
<td>Auto Finance</td>
<td>229778</td>
<td>I</td>
<td>05/15</td>
<td>12/17</td>
<td>$1100</td>
<td>$50</td>
<td>$300</td>
</tr>
</tbody>
</table>

Previous Payment History: 3 Times 30 days late; 4 Times 60 days late; 2 Times 90+ days late
Previous Status: 01/18 - I2; 02/18 - I3; 03/18 - 14

COMPANIES THAT REQUESTED YOUR CREDIT FILE

09/06/18 Equifax-Disclosure 08/27/18 Department Store
07/29/18 FRM Bankcard 07/03/18 AM Bankcard
04/10/18 AR Department Store 12/31/17 Equifax-Disclosure ACIS 123456789
what is a debt load?

This load is too heavy for me to carry!

I can easily carry this load!
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
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.
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?

OPEN IMMEDIATELY! ACT NOW!

STATEMENT ENCLOSED

YOU'RE PREAPPROVED!
LOW INTRODUCTORY RATE!
## CREDIT CARD STATEMENT

<table>
<thead>
<tr>
<th>ACCOUNT NUMBER</th>
<th>NAME</th>
<th>STATEMENT DUE</th>
<th>PAYMENT DUE DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>4125-239-412</td>
<td>John Doe</td>
<td>2/13/19</td>
<td>3/09/19</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CREDIT LINE</th>
<th>CREDIT AVAILABLE</th>
<th>NEW BALANCE</th>
<th>MINIMUM PAYMENT DUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1200.00</td>
<td>$1074.76</td>
<td>$125.24</td>
<td>$20.00</td>
</tr>
</tbody>
</table>

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

Previous balance (+) 168.80
Purchases (+) 125.24
Cash Advances (+)
Payments (-) 168.80
Credits (-)
FINANCE CHARGES (+)
Late Charges (+)
NEW BALANCE (=) 125.24

Current Amount Due 125.24
Amount Past Due
Amount Over Credit Line
Minimum Payment Due 20.00

## FINANCE CHARGE SUMMARY

<table>
<thead>
<tr>
<th>PURCHASES</th>
<th>ADVANCES</th>
<th>For Customer Service Call:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.65%</td>
<td>0.54%</td>
<td>1-800-xxx-xxxx</td>
</tr>
<tr>
<td>19.80%</td>
<td>6.48%</td>
<td>For Lost of Stolen Card, Call: 1-800-xxx-xxxx</td>
</tr>
</tbody>
</table>

24-Hour 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 Credit Counseling (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!