

A close-up photograph of a woman and a young child. The woman, on the right, has curly brown hair and is smiling warmly at the camera. The child, on the left, is also smiling and has their arms around the woman's neck. They are both wearing green clothing. The background is a bright, clear blue sky.

MIND YOUR FINANCES

UNDERSTANDING CREDIT AND DEBT
Participant Guide



UNDERSTANDING CREDIT AND DEBT

Introduction



How is an I.O.U. letter to a friend or relative different than a credit card balance?

Is one better than the other?

What do you think?





America **LOVES** Credit Cards.
 There are over **609 MILLION** credit cards in the
 United States. Total credit card debt: **\$793 BILLION**.

Let's Compare Credit Card Offers. Which card would you rather have?

★ Top Pick in Category

Chase Freedom[®] Visa - \$200 Bonus Cash Back



▶ APPLY HERE

- ▶ Click "APPLY HERE" to apply online or call 888-466-9550
- ▶ Earn \$200 Bonus Cash Back after you make \$500 in purchases in your first 3 months
- ▶ 5% Cash Back on up to \$1,500 spent on gas, hotel and airline purchases from 7/1/11 - 9/30/11
- ▶ You'll enjoy new 5% categories every 3 months like grocery stores, dining, department stores and even home improvement stores. It's free and easy to activate your bonus each quarter!
- ▶ Unlimited 1% Cash Back on all other purchases without limits on what you can earn
- ▶ Up to an additional 10% Cash Back when you shop online at select merchants through Chase
- ▶ No annual fee and cash back rewards never expire
- ▶ This offer is for people with an excellent credit history
- ▶ Excellent credit history means, among other things, that you have a credit history clear of bankruptcy and seriously delinquent accounts

Intro APR	Intro APR Period	Regular APR	Annual Fee	Balance Transfers	Credit Needed
N/A*	N/A*	15.99%-22.99%*(Variable)	\$0*	Yes*	Excellent Credit*

★ Top Pick in Category

Capital One[®] Secured MasterCard[®]



▶ APPLY HERE

- ▶ Click "APPLY HERE" to apply online or call 866-927-5828
- ▶ Get the credit you need with no processing fees or application fees
- ▶ Automatic reporting to the 3 major credit bureaus
- ▶ Track credit with access to your credit score and other tools
- ▶ Your refundable security deposit can get you a line up to \$3000
- ▶ You may qualify for credit line increases with no further security deposit required
- ▶ Use it like any MasterCard credit card, accepted at millions of locations worldwide

Intro APR	Intro APR Period	Regular APR	Annual Fee	Balance Transfers	Credit Needed
N/A*	N/A*	22.9% (V)*	\$29.00*	Yes*	Bad Credit*

TWO TYPES OF CREDIT

SECURED



Mortgage



Auto Loan

UNSECURED



Credit Card



Personal Loan



Student Loan

Can you figure out what the difference is between secured and unsecured credit?

Unsecured Credit: Credit cards are unsecured credit. This means that the bank or company has decided that based on your past credit history, it is willing to take a risk and allow you to charge up to a certain credit limit that is specific to you. You are required to pay at least the minimum amount each month on your debt, but you can continue to add charges to the card. Each time you add to the amount owed, the minimum amount you are required to pay each month increases. You also pay interest on the money owed. Interest charges can easily be in the 18% to 28% range.

Secured Credit: Home mortgages, car loans, and other installment loans that allow you to buy other items such as furniture and appliances are types of secured credit. The bank or organization provides you with credit that you immediately convert into debt. In the case of a home mortgage, the home is the security for the debt. If you stop making payments, the bank can reclaim the home and sell it to collect the amount outstanding on the loan. Banks and other lending institutions provide secured loans for cars, home furniture, and appliances in the same manner.

THE COST OF CREDIT: UNDERSTANDING INTEREST

Credit costs money.

If you must use credit, you want it to cost you AS LITTLE as possible. The cost of credit is usually the interest rate. So what exactly is interest? Consider interest a fee you pay to access credit. Let's look at an example:

You need a car to get to work. See how much credit will cost when you borrow \$5000 on a 4-year auto loan. The below dollar amount is the total that you will pay over the 4 years.

At 5%: \$5527

At 10%: \$6087

At 15%: \$6679

At 20%: \$7303

At 25%: \$7957



Here is a snapshot of the average credit card interest rates:

Credit Card Rate Report

<u>Credit Card Rate Averages</u>			
	Avg. APR	Last Week	6 Months ago
National Average	14.89%	14.89%	15.03%
Low Interest	10.24%	10.24%	10.37%
Balance Transfer	12.80%	12.80%	12.64%
Business	12.85%	12.85%	12.80%
Student	13.14%	13.14%	13.27%
Cash Back	14.91%	14.91%	14.91%
Airline	15.52%	15.52%	15.46%
Reward	14.89%	14.89%	15.00%
Instant Approval	23.33%	23.33%	28.00%
Bad Credit	22.73%	22.73%	22.73%

Source: CreditCards.com
Updated: 2-4-15

Having a low interest rate means that you will pay less for everything you buy on credit than if you were to have a higher rate. But HOW do you get a low interest rate?

INTRODUCING: THE CREDIT SCORE

A credit score is like a “grade” on your creditworthiness. The higher the score, the better. So what makes up a credit score?

Banks and companies have to make thousands of decisions every day regarding how much credit to provide their customers. Credit is the maximum amount of money they are willing to allow you to borrow. The decisions they make are based on what is known as the 5 Cs of Credit.

The Five Cs of Credit

Capacity: Capacity refers to the ability to repay the debt. The lender looks at your income and your other financial obligations to determine your “capacity” or ability to repay. If you have a lower income but no other debt obligations, you may have a higher capacity than someone with high income but a large mortgage and student loan debt.

High Capacity Example: Executive making \$1 million each year with no debts.

Low Capacity Example: A person who has been unemployed for 3 years. No income=no capacity to repay.

Capital: Capital refers to the borrower’s net worth, or wealth. The lender will be less worried about loaning to a person with a high savings account balance with few debts than to a person with no emergency fund and high auto loans.

High Capital: Someone who has money in the bank and few large loans.

Low Capacity Example: A person with no emergency fund and large debts.

Conditions: Conditions refer to the state of the economy (national and local) and the availability of money. If the economy is not doing well, the lender will be less willing to provide credit.

Good Conditions: Thriving Economy

Bad Conditions: Depression or recession

Collateral: Collateral refers to an asset pledged against a loan to give the lender more security that the loan will be repaid. The lender is more confident about getting at least some of the money back when there is collateral.

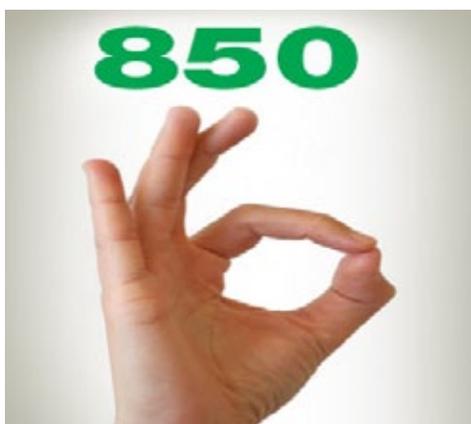
Example of Collateral: A car or home that you are borrowing on

Character: Character refers to the lender’s assessment of the person’s experience repaying debt. Consumers who have failed to repay debt to other banks or companies will find that credit is harder to get and more expensive in the future. Credit becomes more expensive when banks and companies feel that the risk in providing credit is very high. When the risk is high, they charge higher interest rates on the credit they provide.

Good Character: Always pay bills on time.

Bad Character: Never open bills, pay them late if ever.

WHAT IS A CREDIT SCORE?



- Rating used to predict the risk a lender assumes in granting you credit
- How likely you are to make your payments on time in the next two to three years
- Based on a complex mathematical model that evaluates many types of information found in a credit file
- You have more than one credit score but FICO® scores are used by over 70% of nation's creditors

Facts About Your FICO® Score

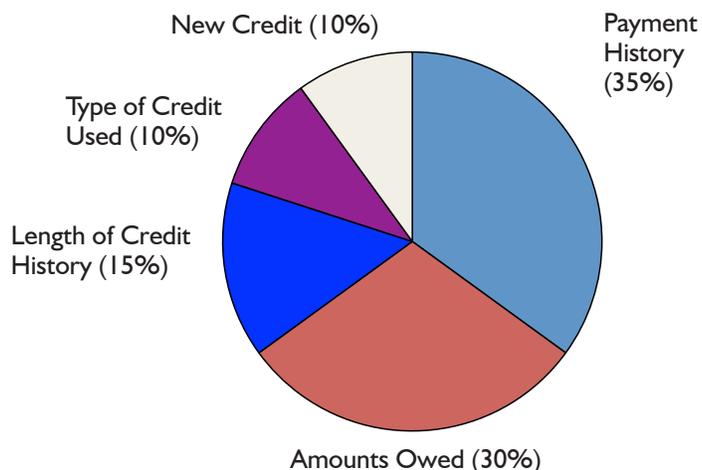
- Ranges from 300 to 850, the higher the score the lower the credit risk
- Majority of scores in 600s and 700s
- For a score to be calculated, your credit report must
 - Contain at least one account that has been open for six months or more
 - At least one account that has been updated in the past six months
- Scores are dynamic and change as data is updated by credit reporting company

What is “Good Credit” and why do I need it?

FICO SCORES

300 – 499	Bad	2%
500 – 549	Bad	5%
550 – 599	Bad	8%
600 – 649	Fair	12%
650 – 699	Fair	15%
700 – 749	Good	18%
750 – 799	Good	27%
800 – 850	Excellent	13%

What Factors Affect a FICO® Score?





GOOD CREDIT VS. BAD CREDIT

Benefits of Good Credit

- Easier to get a job (many employers check credit history)
- Qualify for lower interest rates on all kinds of loans
- Lower car insurance premiums
- Lower home insurance premiums

Cost of Bad Credit

- Harder to get a job
- Hard to get credit when you need it
- Credit will cost you more
- Higher car insurance premiums
- Higher home insurance premiums
- Higher deposits to establish new services

Recipe for GREAT Credit

1. ALWAYS pay your bills on time
2. Borrow as little as possible
3. Keep your oldest card open forever (if no annual fee)
4. Don't apply for new credit too often

Percent of Population FICO Score Range

Top 20% Above 780
Next 20% 740-779
Middle 20% 690-739
Next 20% 620-689
Bottom 20% Below 619

CREDIT COUNSELING AGENCIES

What if you get into credit card debt over your head?

Credit counseling agencies help people who are overextended and need help paying their debts. Many people fall into this category today because they do not have the discipline or confidence to fix their situations. Credit counseling assists people so they can deal with financial stress, develop workable budgets, bring credit accounts up to date, resolve specific credit problems, and make plans to get out of debt.

Not-for-profit credit counseling organizations provide counseling and debt management services at low fees and are focused on helping their clients get out of debt. Many of these organizations work over the phone so that the client can be at home near all of his or her financial information.



Most not-for-profit credit counseling organizations offer a debt management program (DMP) as a way to help you get out of debt faster and with a lot less hassle. These programs have a strong commitment to personal financial education for their clients so that debt problems stay away once they are solved.

Under a DMP, the not-for-profit agency will negotiate with creditors for lower interest rates and lower payments on unsecured debts. Typically, DMP programs only focus on unsecured debt.

The credit counseling organizations also work with creditors to “re-age” debts. That is, the creditor waives administrative fees and late charges and brings credit accounts up to date. The person participating in the DMP makes monthly payments to the credit counseling agency, which then disburses payments to all creditors who have agreed to the plan. A DMP can help the consumer pay off all unsecured debts in as few as three or four years, rather than ten or more years for those not enrolled in the program.

Discussion Question

Considering that many people get themselves into financial trouble by borrowing too much money, are there ever any GOOD reasons to borrow?

American Household Credit Card Debt Statistics: 2014

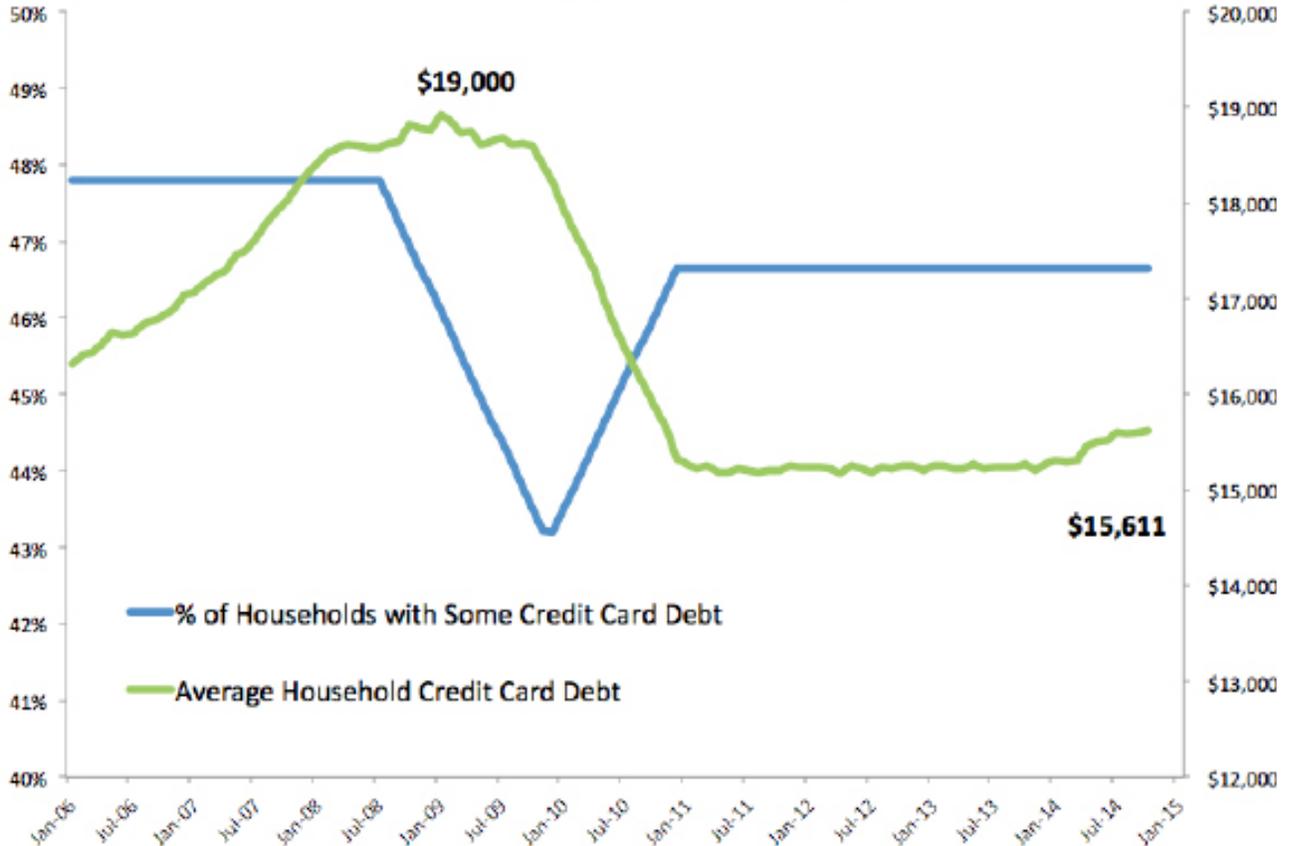
Average credit card debt per household: \$15,611

Average balance per open credit card: \$1,157

In total, American consumers owe \$882.6 billions in credit card debt

Percent of college students who have credit cards is 76%

Credit Card Debt, Average US Household



QUICK FACTS

Total U.S. consumer revolving debt fell to **\$963.5 billion** in December 2008. About 98% of that debt was credit card debt.

Approximately **51%** of the U.S. population has at least two credit cards.

More than **23 billion** credit card transactions were processed in the U.S. in 2007. They are projected to grow by 26% by 2011.

The average American with a credit file is responsible for **\$16,635 in debt** excluding mortgages according to Experian.

U.S. consumers have an average of **four credit cards**.

Approximately 14% of the U.S. population has more than **ten credit cards**.

THE JONES FAMILY

Maria has never checked her credit history. After taking a personal finance class and learning about credit histories, she goes to annualcreditreport.com and downloads her credit history. She is shocked to see that she is more than 5 years delinquent on a medical bill. The clinic had told her that they were going to waive the balance, but it is showing on her report. What should she do?



Homework

Choice of:

- Bring in a frugal recipe to share with the class

Or

- Write out an I.O.U. to yourself for \$1000. Write 5 ways you can save this money in 1 year and become your own bank. Lending to yourself means NO INTEREST payments.

Frugal & Delicious

Crustless Quiche

1 (10 ounce) package frozen chopped spinach
4 eggs, beaten
¾ cup feta cheese, crumbled
½ cup milk

Cook and drain spinach. Add beaten eggs, cheese, and milk. Mix well. Pour in baking dish. Bake at 325 degrees for 35 minutes, or until set. Makes 6 servings.

