

Credit

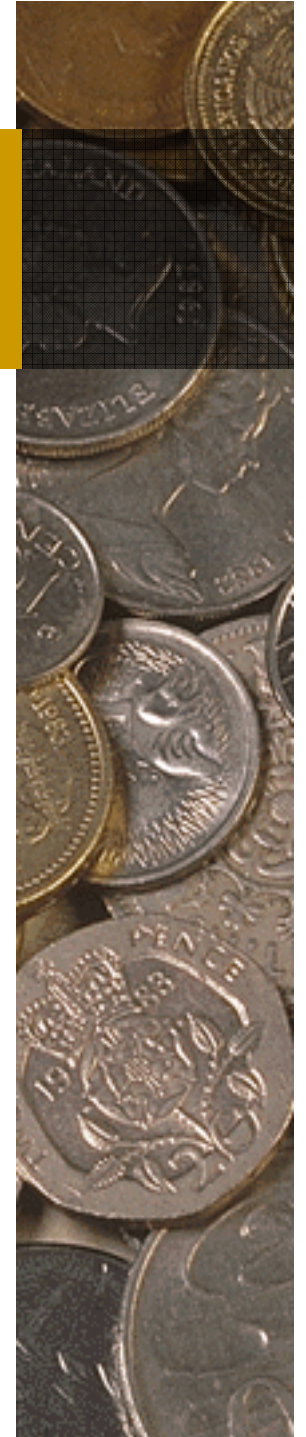
Overview

- What is credit?
- Two parts of a credit purchase?
- Advantages of credit
- Disadvantages of credit
- Credit Bureaus
- Establishing credit
- What Impacts a Credit Rating
- Credit Trouble Warning Signs



What is Credit?

- Defined: borrowing money for purchase
- Examples
 - Charge accounts
 - Credit cards (VISA and MasterCard do not automatically denote a credit card)
 - Installment plans
 - Car loans
 - Household mortgages



Two Parts of a Credit Purchase. . .

- **Principal**: the original amount borrowed
- **Finance charge**: total amount paid to use credit and added by lender to the original loan amount
 - Interest: fee for using or borrowing money, often expressed as an annual percentage rate (APR) **(know the entire term for quizzes and tests)**
 - Service charges
 - Insurance
- Each credit payment includes a portion of principal and a portion of interest.



Advantages of Credit

- Immediate possession: enjoy g/s without waiting
- Flexibility: take advantage of bargains
- Safety: make purchases without carrying cash
- Emergency funds
- Credit payment history acts as a character reference



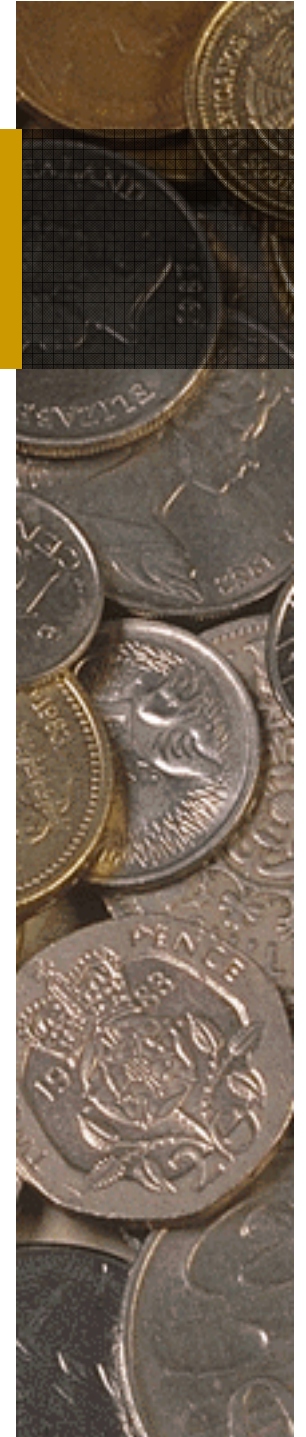
Disadvantages of Credit

- Overspending
- Higher cost once finance charges are added
- Impulse buying--reduces incentives to hunt for bargains



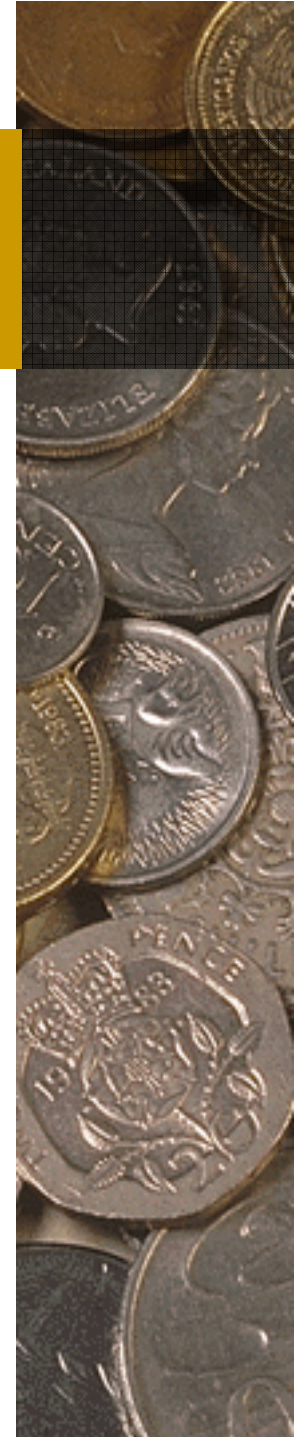
Credit Bureaus

- Experian
- Equifax
- TransUnion



Establishing Credit

- Borrow from bank against savings
- Establish an account with a gas station or dept. store
- Without a credit rating, you may need a co-signer to borrow
- Insurance is a better way to prepare for an emergency



What Impacts a Credit Rating

1. Past payment history
2. Amounts owed
3. Length of credit history
4. Amount of new credit



Credit Trouble Warning Signs

- Charging to limit & applying for new cards
- Using credit cards / cash advances to pay for essentials like groceries
- Use one credit card to pay for another
- Borrowing from family members to pay bills
- Afraid to open credit card statements
- No savings or frequently dipping into savings accounts

