

Keys to your Financial Future



Key Three
Getting Credit and Loans

Recap

- ▶ **Credit**- The ability to borrow money. Buy something now pay for it later.

Credit allows you to:

- ▶ Avoid financial crises
- ▶ Get a job
- ▶ Buy a car
- ▶ Start a business
- ▶ Own a home
- ▶ Get other assets or achieve your goals and realize your vision.
- ▶ **Debt**-The result of using a credit card. When you owe money also known as a **liability**.

Who Provides Credit?

- ▶ Banks or credit unions
- ▶ Stores
- ▶ Auto dealers
- ▶ Government
- ▶ Friends and Family
- ▶ Mortgage companies

THINK LIKE A BANKER

- ▶ Come up with a bank name.
- ▶ What would you want to know from me before lending me money?

How Are Credit Decisions Made?

Lenders look at the four C's:

- ▶ Capacity- do you have the financial ability to pay back the loan?
- ▶ Collateral- Do you have an asset (Car or home) that can be pledged against a loan?
- ▶ Capitol- Do you have other assets that can be used or sold to cover the loan?
- ▶ Character- Are you likely to pay back the loan as agreed?

Different Types of Credit

- ▶ **Installment loans**- You are approved for a specific loan amount taken out for for a specific period. The amount you owe each month is calculated when you take the loan out.
- ▶ **Revolving Credit**- You are approved for a credit limit. You can borrow any amount up to the credit limit. What you pay back each month varies depending on how much you have borrowed during the month.
- ▶ **Secured Credit**- Means there is another asset pledge against the loan. If you do not pay the loan as outlined in the terms, the lender can take back the pledge asset (Also known as collateral). Example, car payment.
- ▶ **Unsecured Credit**-There is no asset pledge against the loan. Example, student loans, credit cards.

Applying For Credit

- ▶ Annul Fee- The fee you pay per year in order to keep your credit card.
- ▶ Annual percentage rate (APR)- The percent charged every year on top of any outstanding payments currently on your card.
- ▶ Credit line- The maximum amount of money that can be charged to a given credit card account at any time. Know your credit limit so you don't spend beyond that amount.
- ▶ Cash back/rewards- Benefits and bonuses credit card company's offer to entice you to open a card with them. Examples: cash back, travel rewards.
- ▶ Balance- Amount owed on the card.
- ▶ Minimum payment- The smallest amount available to pay on the card.

How Credit Works

- ▶ Principal- The money you borrow.
- ▶ Interest- The price you pay on top of the price of the principal.
- ▶ Fixed Interest- The interest rate will stay the same.
- ▶ Variable Interest- The interest rate may change.
- ▶ Terms of the Loan- The interest rate, kind of interest, the reason a variable rate may change, when and where payments are due, fees, and information about the loan.
- ▶ Loan Term- How long the loan may last.

Break Down

How much you pay for credit or a loan is based off of:

- ▶ The amount you borrow
- ▶ The interest rate (APR)
- ▶ The term of the loan (How long you borrow the money)

- ▶ If you borrow **\$6,000.00** for a car loan and pay 4 percent interest for **three years** you will pay- \$177.14 month with \$274.62 in interest.

Car Loan

- ▶ Vehicle can't be too old.
- ▶ Cosigner needed if buyer is under 18.
- ▶ A 20% (\$2,500.00) down payment is required.
- ▶ The car payment cannot exceed 40% of your wage.
- ▶ Credit unions offer much lower interest rates.



Financing a Vehicle

- ▶ Lack of credit history is the biggest barrier.
- ▶ Interest rates are usually higher for first time buyers or buyers with no credit history.
- ▶ Lenders will not approve loans for vehicles five years or older.
- ▶ Lenders usually will not approve loans for vehicles with more than 90,000 miles on them.
- ▶ You may be denied a loan if you are not asking to borrow enough money. Minimum amount is \$7,000.00.

Things To Think About....

- ▶ First **six months** of insurance is usually around \$1,958.78.
- ▶ Registration is \$1,557.10.
- ▶ **Must have both and proof before leaving the dealership!!!!**

Also think about:

- ▶ **Gas**
- ▶ **Down payment**
- ▶ **Repairs**

Which Debt Do I Pay First?

Ming uses her car to get to and from work and classes at the community college. She also helps transport her siblings to and from some of their after school activities. She has an automobile loan, two credit card debts, and a medical debt she pays monthly. She missed work due to illness so she had a smaller paycheck. She also had some unexpected expenses and found she cannot afford all her debt payment.

- ▶ What debt should Ming pay first?
- ▶ Automobile loan-nonpayment can lead to repossession which can affect her ability to earn an income and go to school.
- ▶ Credit Card
- ▶ Health care provider

The Cycle of Debt

When you make payments on time:



When you miss payments or make late payment:

