

To Charge or Not to Charge

Dollars and Sense

Copyright

Copyright © Texas Education Agency, 2014. These Materials are copyrighted © and trademarked ™ as the property of the Texas Education Agency (TEA) and may not be reproduced without the express written permission of TEA, except under the following conditions:

- 1) Texas public school districts, charter schools, and Education Service Centers may reproduce and use copies of the Materials and Related Materials for the districts' and schools' educational use without obtaining permission from TEA.
- 2) Residents of the state of Texas may reproduce and use copies of the Materials and Related Materials for individual personal use only, without obtaining written permission of TEA.
- 3) Any portion reproduced must be reproduced in its entirety and remain unedited, unaltered and unchanged in any way.
- 4) No monetary charge can be made for the reproduced materials or any document containing them; however, a reasonable charge to cover only the cost of reproduction and distribution may be charged.

Private entities or persons located in Texas that are **not** Texas public school districts, Texas Education Service Centers, or Texas charter schools or any entity, whether public or private, educational or non-educational, located **outside the state of Texas** *MUST* obtain written approval from TEA and will be required to enter into a license agreement that may involve the payment of a licensing fee or a royalty.

For information contact: Office of Copyrights, Trademarks, License Agreements, and Royalties, Texas Education Agency, 1701 N. Congress Ave., Austin, TX 78701-1494; phone 512-463-7004; email: copyrights@tea.state.tx.us

Two Common Types of Credit

- **Installment credit** allows the borrower to make monthly payments on principal and interest.
- **Revolving credit**, such as a credit card, allows the consumer to borrow up to a set maximum amount.



Installment Credit

- Mortgage loans
- Automobile loans
- Installment loans



Contract may include:

- Total purchase amount
- Required down payment
- Total financed amount
- Finance charges
- Number of payments
- Payment amounts
- Payment schedule

Common Forms of Installment Loans

- Installment sales credit
- Installment cash credit
- A single-payment loan



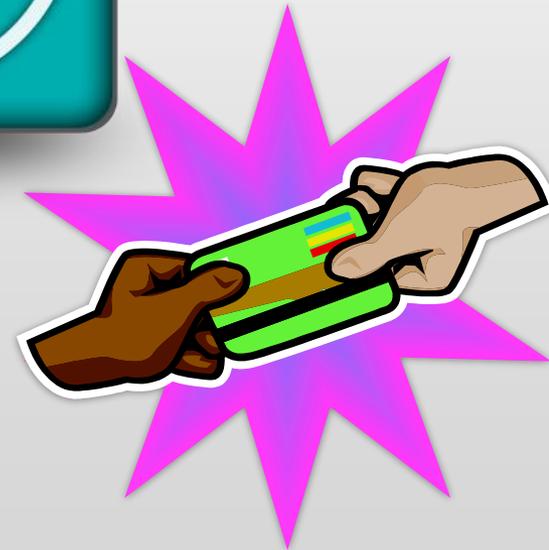
Revolving Credit



- Regular charge accounts
- Revolving charge accounts

Advantages of Using Credit

- Helps you make larger purchases
- Eliminates the need to carry cash
- Helps you establish credit history (as long as you pay your bills on time)



Disadvantages of Using Credit

- Credit can be costly
- It can tempt us to overspend
- It can do long-term financial damage



If you borrow \$3,000.00 on a credit card at 21% interest and only pay the minimum payment of 2%, it will take 30 + years to pay off the balance.

Spending Your Future Income

- When you buy things on credit, you are obligating your future income.
- Items that are investments, such as a home, or items that are tools to help you earn money, such as a car to get to work.



Finance Charges

Total finance charges paid will depend upon the amount financed, the annual percentage rate and the length of the repayment period.



Annual Percentage Rate (APR)

Amount financed	Total interest charges are proportional to the amount financed
Annual percentage rate	As the APR rate goes up, the total finance charges increase
Length of repayment period	The longer the repayment period, the higher the finance charges

Truth in Lending Law Act (TILA)

This law protects you against inaccurate and unfair credit billing and credit card practices. It requires lenders to provide you with loan cost information so that you can comparison shop for certain types of loans.



Cash versus Financing

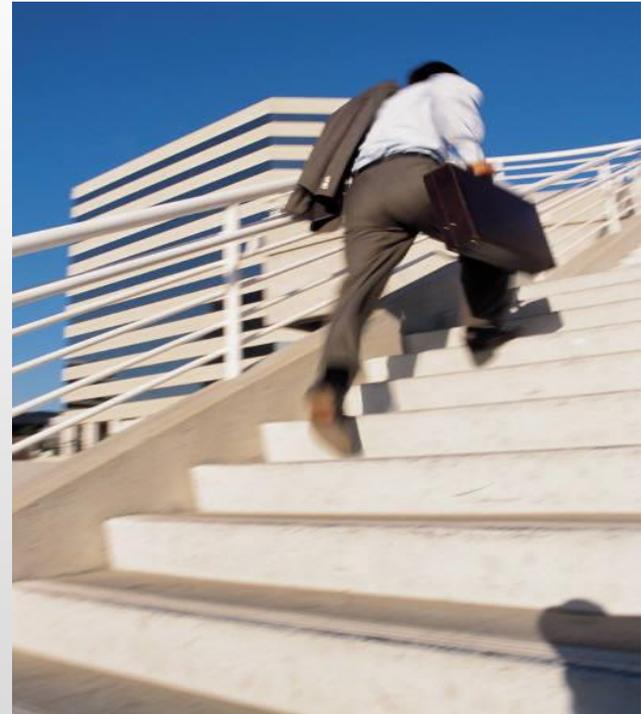
Cash purchase of car	Total Paid	Interest paid
	\$5,000.00	\$0
\$5,000.00 financed 36 months at 9% interest 36 payments of \$159.00	\$5,724.00	\$724.00
\$5,000.00 financed 48 months at 9% interest 48 payments of \$124.00	\$5,973.00	\$973.00

The longer the term of your loan, the more interest that you pay.

Building a Credit History

- How many times have you borrowed money?
- Did you pay it back on time?
- Were your payments late?

When you sign up for and pay utilities, you are building your credit history.



Credit Scoring and Credit Reports

- Credit bureaus provided credit reports to potential lenders and employers.
- The “Fair Credit Reporting Act” limits the sharing of financial information to firms that have a legal purpose to evaluate this information.
- You may access your credit report every 12 months free of charge.



What is in a Credit Report?



What is in a Credit Report?

- Credit report score
- Personal information
- Public record information
- Collection agency account information
- Credit account information
- Inquires



Tips to Improve Your Credit Score

- Pay bills on time
- Keep credit cards and other revolving credit balances low
- Pay off debt rather than moving it around

Over half of all consumers have a credit score that is 700 or above

What are the Most Important Factors Affecting Your Credit Score?

Factors Affecting Your Credit Score

Payment History

Amount Owed

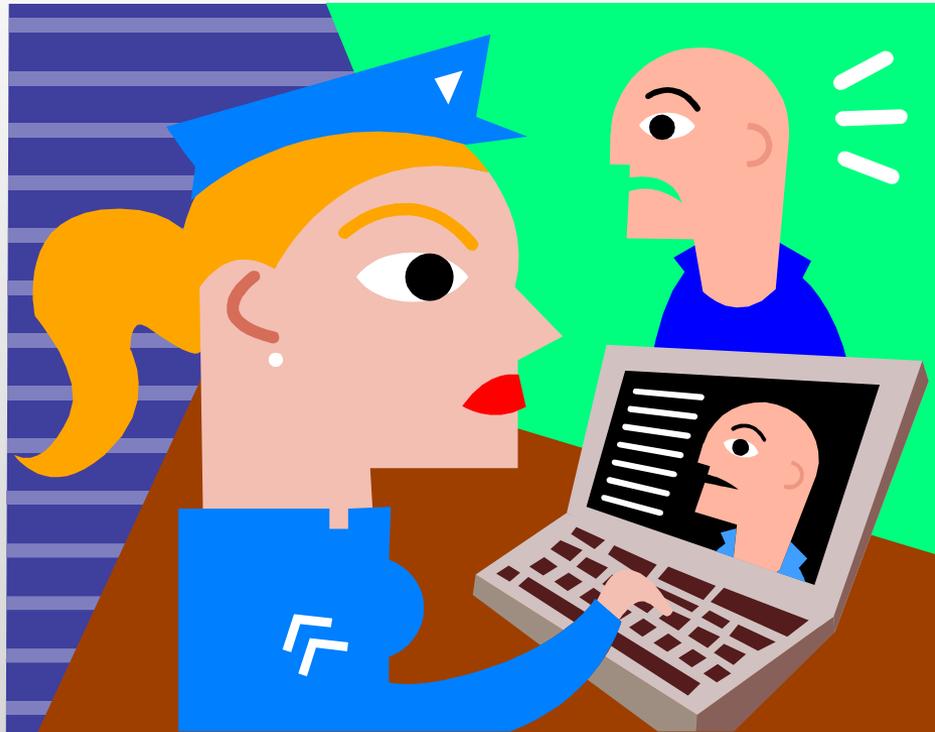
Length of History

New Credit

Types of Credit



What is Identity Theft?



Ways to Protect Against Identity Theft

- Avoid keeping pin numbers or social security numbers in your wallet
- Don't give any information over the phone unless you initiate the phone call
- Have your mail held while on vacation
- Install firewalls and virus software on your computer
- Keep a list of credit cards
- Mail bills at the post office
- Shop online only at secure sites
- Use a locked mailbox

Questions?



References and Resources

Images:

Microsoft Clip Art: Used with permission from Microsoft.

Textbook:

Lowe, Ross. *Consumer education and economics*. 6th ed. Glencoe/McGraw Hill, 2006. Print.

Websites:

Credit Basics

A website with information on saving and investing.

<http://moneymattersmakeitcount.com/CREDITDEBT/Pages/CreditBasics.aspx>

References and Resources

Websites:

Mortgage Rates, Home Loans, Refinancing, Credit Cards, CD Rates with Personal Finance Advice

Information on all banking services including an interest calculator.

<http://bankrate.com/>

The Leading Practical Money Skill Site on the Net

Interactive games concerning budgeting, banking, credit and money management.

<http://www.practicalmoneyskill.com/foreducators/lessonplans/highschool.php>

What Is Financial Planning?

Information on the benefits of investing.

<http://www.fpanet.org/WhatisFinancialPlanning>