

Quick Response

Explain how you think credit cards work. How much do you have to pay every month? What happens if you pay late? What kinds of fees are involved?



The Language of Credit

4-L

Credit Cards

Bank credit cards can be used almost anywhere.

Store credit cards can only be used at a specific merchant.

The minimum payment is based on the balance owed.

Credit cards have the highest interest rates.

Installment Loans

Used for major purchases such as cars and appliances.

Monthly payments are set for the life of the loan.

A typical loan term is 24 to 60 months (2-5 years).

Student Loans

Used for tuition and living expenses.

Allow you to delay making payments until after graduation.

May provide a tax deduction for interest paid.

A typical loan term is 10-15 years.

Mortgages

Used only for loans to purchase a house.

The term is typically 15 or 30 years.

Monthly payments may be set for the life of the loan or adjustable.

Provides a tax deduction for interest paid.

Credit Terms

Principal - The amount of money you borrowed.

Interest - The amount you pay to use someone else's money.

Loan Term - The length of time you have to pay back a loan.

Revolving Loan – A loan that rolls over every month and has no set term.

Credit Terms

Annual Fee – A yearly charge you pay for the privilege of using credit.

Credit Limit – The maximum amount of credit a lender will extend to a customer.

Over-the-Limit Fee – A charge for spending more than your credit limit.

Credit Terms

Late Fee – Penalty for making a payment after the due date.

Grace Period – The length of time you have before you start accumulating interest.

Finance Charges – Represents the actual dollar amount of using credit.

APR – Annual Percentage Rate

Quick Response

Explain what you think you might use credit for in your life. What is your plan at this point to use credit without getting into financial trouble? Explain.

The Cost of Credit

4-L

Credit Facts

- About **26%** of teens ages 16-18 already have more than \$1,000 in debt.
- Average credit card debt of American households is \$12,000

4-A

The Cost of Using Credit - Installment Loan

\$1,000 Charged to Credit Account
APR = 18%
Payment: \$100/month

Finance Charges \$91.62

Paying \$100/month, it will take you 11 MONTHS to pay off your debt.

**You
Borrowed
\$1,000
and Paid
\$1,091.62**

4-J

The Cost of Using Credit - Credit Card

\$1,000 Charged to Credit Account
APR = 18%
Payment: Minimum (2.5%)

Finance Charges \$900.95

Paying the minimum, it will take you 9 YEARS and 2 MONTHS to pay off your debt.

**You
Borrowed
\$1,000
and Paid
\$1,900.95**

4-J

Installment Loan	Credit Card
<p>You Borrowed \$1,000 and Paid \$1,091.62</p>	<p>You Borrowed \$1,000 and Paid \$1,900.95</p>

4-J

Top 10 Questions to Ask

Before Signing on the Dotted Line

1. Do I really need this item right now, or can I wait?
2. Can I qualify for credit?
3. What is the interest rate (APR) on this card?
4. Are there additional fees?
5. How much is the monthly payment, and when is it due?

4-B-2

Top 10 Questions to Ask

Before Signing on the Dotted Line

6. Can I afford to pay the monthly payments?
7. What will happen if I don't make the payments on time?
8. What will be the extra cost of using credit?
9. What will I have to give up to pay for it?

10. All things considered, is using credit worth it for this purchase?

4-B-3

Quick Response

What actions do you think you can take now to practice sensible borrowing habits and build a good reputation as a borrower?

The Five Cs of Credit

4-L

Character

- Will you repay the debt?
 - Responsibility – Have you paid things on time in the past?
 - Stability – How long have you been at your job/residence?

Capacity

- Can you repay the debt?
 - What are your income/expenses?

Capital

- Is the creditor fully protected if you fail to repay?
 - What assets/liabilities do you have?
 - Assets - Liabilities = Net Worth

Conditions

- What general economic conditions can affect your repayment of debt?
 - Do you have job security?

Collateral

- Can the bank take what you bought and resell it?
 - Typical of car loan or mortgage
 - Other assets can be “pledged”

Credit Reports & Credit Scores

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Credit Reporting Agency

There are three credit reporting agencies that keep track of everyone's financial information:

- TransUnion
- Experian
- Equifax

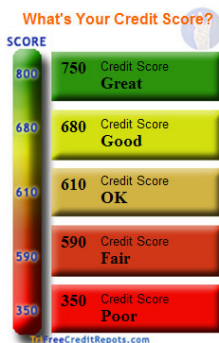
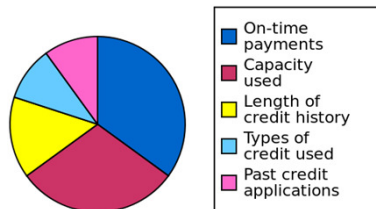
Credit Report

Detailed record of your personal history, credit history, and public records.

Credit Score

Rating used by credit reporting agencies to help lenders decide whether and/or how much credit can be extended to a borrower – each agency uses its own scoring formula

CREDIT SCORE FACTORS



Get and Keep a Good Score

- Make sure your credit report is accurate.
- Pay all your bills on time.
- Apply for credit only when you need it.
- Lower the balances on all your credit accounts.
- Pay off debt rather than moving it around.

4-N

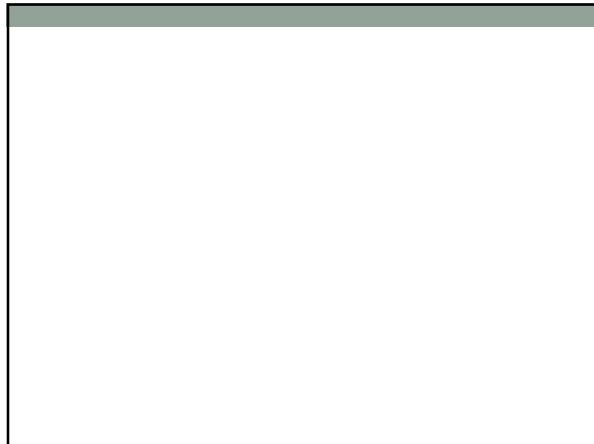
Protect Yourself Against Inaccurate Credit Reports

- Get a free copy of your free credit report @ annualcreditreport.com
- Examine it thoroughly.
- If you find something that is incorrect, ask the agency to investigate the information.
- If that doesn't resolve the issue, you can attach a short statement to your credit report.

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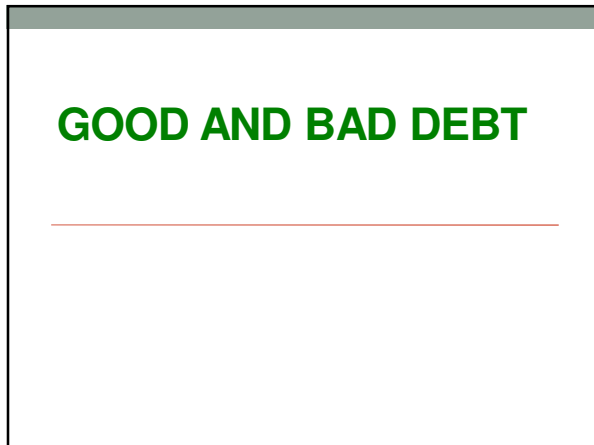
Five C's of Credit

- Character
 - Responsibility
 - Stability
- Capacity
 - Income – Expenses
- Capital
 - Assets - Liabilities
- Conditions
 - How general economic conditions affect you
- Collateral
 - Assets pledged to the loan for security



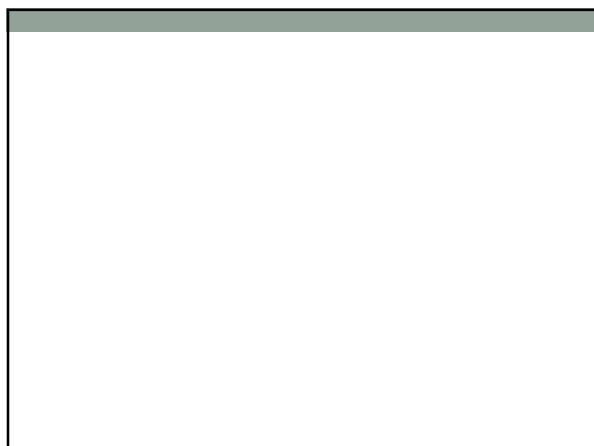
Quick Response

Explain in your own words why many people have trouble with debt.



Quick Response

Explain the difference between good debt and bad debt. What makes 'good' debt good? What makes 'bad' debt bad?



Opening Question

Explain what you understand "identity theft" to mean. What is it? How does it happen? Why? How can you prevent it?

IDENTITY THEFT

What is Identity Theft?

Where someone:

- Obtains and uses another person's **personal information**
- In some way that involves **fraud or deception**
- Typically for **financial gain**

The Risks of Identity Theft

IDENTITY THEFT VICTIMS COULD:

- Have any and all of their financial accounts **invaded and emptied**
- Be asked to repay **debts** they did not incur
- Lose their good **credit rating**
- Be refused **loans**
- Lose **job** opportunities
- Be **sued** for things they have no part of
- Be **arrested** for crimes they didn't commit

Dealing With Deception

1 of 7

You walk up to an ATM and a guy who appears to be waiting his turn walks up behind you. But he's uncomfortably close—right over your shoulder—as you get ready to enter your PIN.

What should
you do?

Dealing With Deception

2 of 7

You're at a cash register in a store and have given the clerk your credit card. She holds on to it, probably to verify your signature. But then she says she needs to grab something from the back and starts to walk away with your card in hand.

Dealing With Deception

3 of 7

A caller says she's from your credit card company and wants to offer you a higher credit limit for being such a good customer. You reply, "Great, what do I have to do?" And she tells you to give her your personal information for account verification.

4 of 7

Dealing With Deception

You've found a pair of shoes at a great price on a Web site you just found. You start the check-out process and notice that the padlock at the bottom of your computer screen is open and that the Web page address starts with "http" instead of "https."

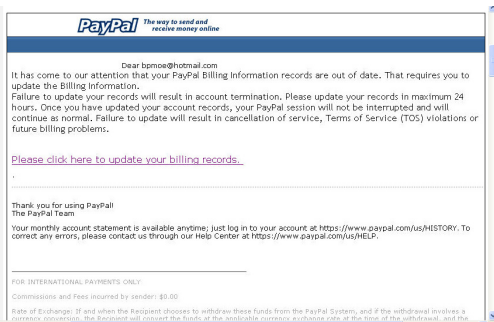
5 of 7

Dealing with Deception

You get an E-mail from an online store you frequently buy from. It says that the credit card on your account has expired and gives you a link to update your information.

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SCAMMED!



Dealing With Deception

Your friend sends you an E-mail about cool new software that lets you share music with others for free. She sends you the link to download the software, which is from a site you've never heard of.

7 of 7

Dealing With Deception

You lose out on an item you're bidding for on eBay. Then you get an Email stating the winner backed out and you can have the item if you still want it, just send your credit card information via Email.

Preventing ID Theft

- Keep your personal information **in a safe place**, under lock and key if possible
- Sign new **credit cards**; destroy old ones
- Check and double-check all **bill statements** for unauthorized use
- Shred **bill statements** that you throw away
- Be alert for **scams**
- Only use **secure** payment forms

Responding to ID Theft

1. Cancel your credit or debit card
2. File a police report
3. Post a fraud alert with the credit reporting agencies

In Extreme cases:

4. Start monthly credit monitoring
5. Report to Social Security and apply for a new Social Security number

Discussion Questions

- What are some ways your identity could be stolen?
- What precautions can you take to prevent identity theft?
- What can you do after your identity has been stolen? Why is it important to take action?

Opening Assignment

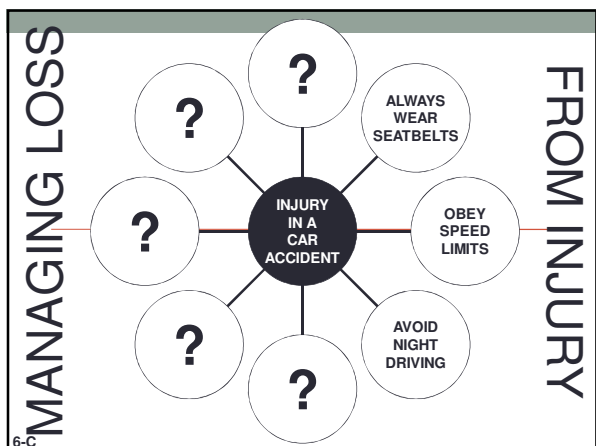
Define the word "Risk". What does it mean? What kinds of risk do we face on a daily basis? How do we deal with that risk?



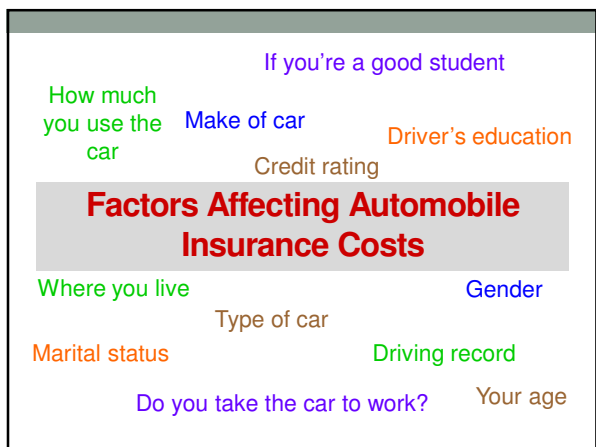
Managing Risk

Avoid it
Reduce it
Accept it
Share it

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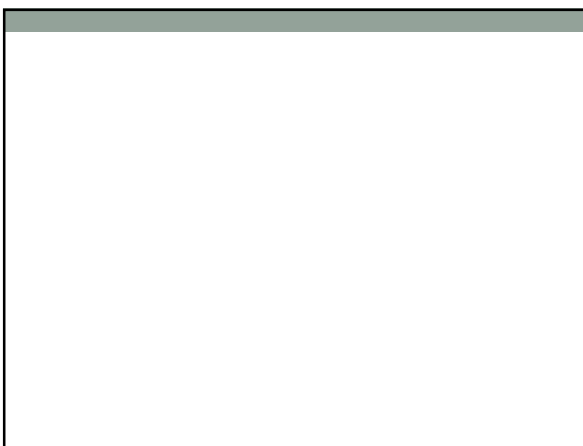
- ### Types of Risk
- Property Risk
 - Loss or destruction of your property
 - Personal Risk
 - Risk to yourself of injury or death
 - Liability Risk
 - Risk to others
 - Includes both Property & Personal



- ### How to Save Money on Insurance
- Choose the right car.
 - Select a higher deductible.
 - Have a good driving record
 - Make good grades
 - Maintain good credit
 - Eliminate Collision and Comprehensive coverage on older cars
 - Reduce daily driving
 - Avoid filing excessive claims

Your Property Risk Assessment

Take an inventory of your personal property. Create a list of items you own; be sure to include all your electronics, CDs and DVDs, clothing, sports equipment, etc. Estimate the cost to replace each item on the list. Be sure to include a total amount.



Quick Response

Explain what you think you should do if you get in a car wreck. Walk it through from the collision until you get your car fixed.

HOW INSURANCE WORKS

Policy

- When you purchase insurance, you enter into a written contract with your insurance company which is called an **insurance policy**
- **Policy Limits** – the insurer agrees to provide a certain amount of protection to the policy holder
 - Example: Auto Liability: \$25,000 per person, \$50,000 per accident

Premium

- The **cost** you pay for insurance
- Based on the risk of loss, a combination of:
 - Probability that a claim will be filed, and
 - Potential cost of **paying the claim**

Deductible

- Amount you pay **out of pocket** on a claim
- This is a form of **self-insurance** – you pay this amount before the insurance company pays anything.

Coverage

- These are the items that insurance **will** pay for
- Example: Car Insurance
 - **Collision**, as the name implies, covers your auto when it strikes an object (e.g., a tree or a telephone pole).
 - **Comprehensive** covers your auto against other physical damage that is not covered by collision (e.g., fire and theft).

Exclusions

- These are the items that insurance **will not** pay for
- For example, insurers do not cover "willful and wanton misconduct." This is conduct that is **intentional or reckless** or otherwise in disregard of the law.

Filing a Claim

- When you've been in an accident, you must **notify** the insurance company if you want them to pay – either yours or the other driver's
- Your insurer will have you fill out an incident report in which you state **what happened** in the accident
- You may also need to give a **recorded** statement to the adjuster.

Property Claim Handling

- If you file a claim for property damage, you'll need to get an appraisal done by an **insurance adjuster**
- Some insurers will send an adjuster to you, while others require you to come to them – the adjuster **estimates** the damages to your vehicle and gives you a written report
- You can usually take this written report to any repair shop and have the repairs done for the cost stated by the adjuster

Injury Claim Handling

- If you are injured, your insurer will require you to have a **physical exam**
- In general, you can see your own doctor, but the insurer may also ask that you see a doctor of its choosing
- **Personal Injury Protection** – Most policies give you about \$5,000 to pay your own medical bills without having to finish the claims process