Understanding Credit

Utah State University, Salt Lake County Library, FINRA
Items to Discuss

• What is credit
• Types of credit
• Understanding credit
Credit

Obtaining goods and services before payment based on the promise that payment will be made at a future date.
There are many sources of credit including...

- Private mortgage companies
- Depository institutions
- Credit card companies
- Automobile dealerships
- Government

Source: Take Charge Today, University of Arizona
## Secured Loans

<table>
<thead>
<tr>
<th>Mortgages</th>
<th>Borrower provides collateral - something valuable - which the lender can take if the borrower DEFAULTS (does not repay according to agreement)</th>
<th>Borrow repays the amount in a specified number of equal installments.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car loans</td>
<td></td>
<td></td>
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<tr>
<td>Personal bank loans</td>
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<tr>
<td>Student loans</td>
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</tr>
</tbody>
</table>

- Lower interest rates
- Less risk to lender
- Higher borrowing limits
## Unsecured Loans

<table>
<thead>
<tr>
<th>Credit cards</th>
<th>Borrower gets money from lender without any collateral.</th>
<th>Borrow is allowed to repay money in unequal amounts for an indefinite period of time.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store cards</td>
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<tr>
<td>Lines of credit</td>
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<tr>
<td>Personal loans</td>
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</tbody>
</table>

- Higher interest rates
- Increased risk to lender
- Lower borrowing limits
The Cost of Credit

• Interest- A fee assessed for the use of credit.
• Fees
  – Late fees
  – Over-the-limit fees
  – Finances Charges
• Co-signing for credit
$10,000 car loan

8% annual interest rate

Monthly payments for 3 years

$1,280.96 paid in interest

Source: Take Charge Today, University of Arizona
Should I Use Credit?

Is this a **NEED** or a **WANT**?

Will using credit provide long-term benefits?

Can I pay for my purchase with money already saved?

Can I wait to purchase until I have saved enough money?
Getting Credit

• Your ability to get credit depends on how trustworthy a lender thinks you are.

Application
- Type/Amount of Credit
- Personal History
- Ability to Repay

Credit Check
- Account Lengths
- Delinquencies
- Debt Balance

Approval/Denial
- Use Credit
- Request Credit Report
Choosing the Right Credit Product for You

• Favorable interest rates
• Can I manage the loan now and in the future (ARMS)?
• Are terms consistent through the loan life?
Choosing the Right Credit Product

- What is the annual interest rate?
- Are there fees?
- What are the consequences of a missed or late payment?
- What happens if the loan is not paid back in full?
- Do you trust and feel comfortable with the lender?
Using Credit Responsibly

• Debt should be less than 20% of net income (take-home pay)
• Monthly payments should be less than 10% of net income
Resources

AnnualCreditReport.com- provides a free copy of your
BankRate.com- provides current interest rates for unsecured and secured loans.