

Learning for Earning

Your Route to Success

Sixth Edition



John A. Wanat
E. Weston Pfeiffer
Richard Van Gulik



PowerPoint Presentations for

Learning for Earning

by Michael P. Wanat
Sean W. Pfeiffer
Marian S. Van Gulik



The Goodheart-Willcox Co., Inc.
Tinley Park, Illinois

CHAPTER

27

Credit



Chapter Objectives

After studying this chapter, you will be able to

- discuss the advantages and disadvantages of using credit.
- describe four major types of credit.
- list ways to begin building a credit history.
- describe a person whom creditors would view as a good credit risk.
- explain the importance of a good credit rating.
- list ways to protect yourself from identity theft.

Key Terms

- credit line
- collateral
- assets
- cosigner
- credit bureau
- credit rating
- credit agreement
- identity theft



Common Uses of Credit

- Buying things on credit means you buy now and pay later.
- Credit used wisely can enrich your lifestyle with clothes, houses, cars, furniture, and other comforts.
- Buying items on credit makes them cost more due to interest payments.
- Credit used poorly creates big problems.



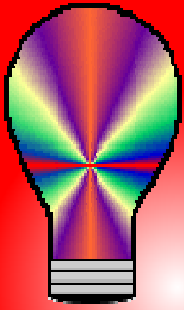
Advantages of Credit

- By using credit, you reap the following benefits:
 - You conveniently carry a credit card instead of large amounts of cash.
 - You get to use goods and services while paying for them.
 - You can handle financial emergencies.



Disadvantages of Credit

- Credit can have the following disadvantages:
 - Credit encourages impulse buying.
 - Some people get into serious debt by using credit without making timely payments.
 - Goods and services cost more when purchased with credit instead of cash.
 - Credit ties up your future income.



Think About It

- ❖ *In what ways can credit be abused?*
- ❖ *How can you avoid abusing credit?*





When to Use Credit

- Before using credit to make a purchase, consider the following:
 - Can you do without the item now?
 - Will you have problems repaying the debt?
 - Are you already spending more than 20 percent of your net pay on installment debt?
- Saying “yes” to any point means you cannot handle more credit right now.

Types of Credit

- Consumers have the following four types of credit available:
 - charge accounts
 - credit cards
 - installment credit
 - loans
- ❖ *Does your family use at least one type of credit? more than one type?*

Charge Accounts

- Charge accounts are offered by businesses such as utility companies.
- Normally, no down payment is required and no interest is charged, provided the balance is paid by the date due.
- Fees are usually added to the amount owed if the customer fails to make full payment by the assigned date.

Credit Cards

- Banks, stores, and many other companies offer credit cards.
- After a purchase, you receive monthly bills.
- If you do not pay the full balance, an interest charge is added.



Credit Cards

- When you apply for a credit card, your income and ability to pay will determine the credit line set by the issuer.
- ***Credit line*** – The maximum amount that can be charged on a credit card.
- If you attempt to exceed your credit line, the credit issuer may refuse the purchase or okay it with an added fee.



Did You Know?

- ❖ *Using credit may be an easy way to purchase items, but interest rates can be very high.*
- ❖ *If you make only minimum payments each month, your total cost may eventually be as much as two to three times the original cost of the items.*

Installment Credit



- Expensive home items are often bought with installment credit.
- If set payments are not made on time, goods may be repossessed.



Loans

- Banks and other financial institutions offer credit in the form of loans.
- You must pay back what you borrow plus interest.
- When you need a loan, research your options carefully.
- Interest and repayment terms can vary considerably.

Loans

- People get loans to pay for
 - cars and homes
 - further education
 - home improvements
 - business expenses
 - outstanding bills
 - vacations





Loans

- A *signature loan* is backed by your signature, or the promise to repay.
- Many loans require you to put up collateral before you obtain the money.
- ***Collateral*** – Something of value held by a lending institution in case a loan is not repaid.



How to Obtain Credit

- Build a credit history gradually:
 - Open a savings and a checking account.
 - Join a credit union and take out a low-interest loan.
 - Apply for a gasoline or local department store credit card.
 - Purchase an item in a store on a layaway plan.
 - Always make payments on time to develop a good credit record.



Creditors Look for Credit Risks

- Creditors want to issue credit to people who are good credit risks.
- A person who is a good credit risk
 - is honest.
 - has a job with steady income.
 - has lived in the same area for a few years.
 - makes regular credit payments on time.
 - has assets.

Creditors Look for Credit Risks



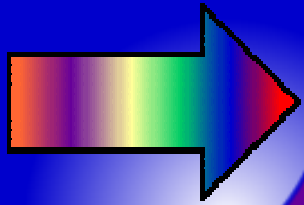
- **Assets** – The valuable possessions a person owns, such as a house or car.

Getting a First Loan

- It is difficult for minors to borrow money. Generally, a person must be at least 18 years of age.
- You might need to ask a friend or relative to cosign your first loan.
- ***Cosigner*** – A person who signs a loan with a borrower and is held responsible if the borrower does not pay back the loan.

Credit Applications

- Before credit is granted to anyone, the person's job history, credit history, and ability to repay are checked.
- When you apply for credit, you must fill out a credit application.
- You will be asked to provide your personal and financial information in detail.



In Your Opinion



- ❖ *What do you think are good reasons to apply for credit?*
- ❖ *What are some bad reasons?*



Credit Bureaus and Credit Ratings

- The information in your credit application will be checked to develop a rating.
- ***Credit bureau*** – An organization that gathers financial information on individuals for businesses to use as a credit reference.
- ***Credit rating*** – An estimate of how likely a person is to pay bills on time based on past records.



Credit Bureaus and Credit Ratings

- Make sure the credit information you provide is complete and accurate.
- Don't lie or try to hide the facts.
- Work hard to develop a good credit rating.
- Always pay your bills on time, but if you have any problems, call your creditors to try to make special arrangements.



Did You Know?

- ❖ *The names of the three major U.S. credit-reporting companies are Equifax, Experian, and Trans Union.*
- ❖ *Consumers are entitled to obtain a free copy of their report annually from each company to check for unauthorized purchases and verify that all the information is accurate.*



Examine All Credit Agreements

- Always read a credit agreement before signing it.
- ***Credit agreement*** – A written contract that legally binds a lender and a borrower to specific credit terms.
- It is important that you understand what you are signing since you will be obliged to fulfill the terms of the contract.

Examine All Credit Agreements

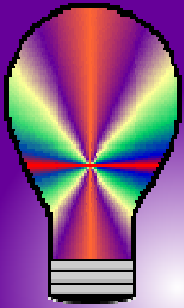
- Never sign an agreement that has blanks.
- Pay attention to the finance charges and make sure all numbers are correct.





Identity Theft

- Protecting your identity may be more important than establishing your credit.
- ***Identity theft*** – Theft that occurs when someone uses your personal information, such as your name, social security number, or credit card number without your permission to commit fraud or other crimes.



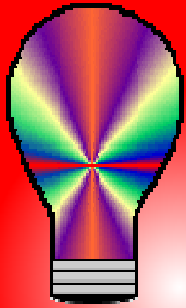
Think About It

- ❖ *Explain the advantages and disadvantages of using credit.*
- ❖ *Identify the four major types of credit.*
- ❖ *Suggest ways to build a credit history.*
- ❖ *List the qualities of a good credit risk.*
- ❖ *Explain the importance of a good credit rating.*
- ❖ *List ways to protect yourself from identity theft.*



Chapter 27: In the Know

- The four major types of credit are charge accounts, credit cards, installment credit, and loans.
- Using credit has several advantages and building a good credit history is important.
- People who have good credit ratings are good credit risks.
- There are ways to protect yourself from identity theft.



Chapter 27: Think More About It

- ❖ *Why is it important to build a credit history?*
- ❖ *To prevent a bad credit rating, what must you do if you cannot pay a bill on time?*
- ❖ *What should you do to ensure your credit rating is accurate?*
- ❖ *What should you do to prevent yourself from becoming a victim of identity theft?*