

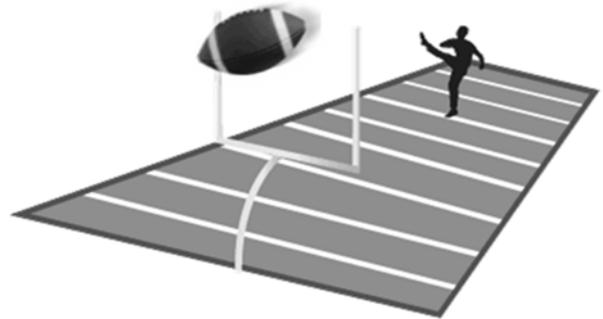
Financial Literacy 101: Credit Loans & Credit Score



New Mexico
State Treasurer's Office
The Honorable Tim Eichenberg
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Credit Score Chart and Range

760-850	Excellent
700-759	Very Good
660-699	Good
620-659	Fair
580-619	Poor
500-579	Very Poor



The 5 C's of Credit

Credit or Character (Integrity)

- \$ 700-850 Credit Score
- \$ Pay bills on time and balances <30% on credit cards = higher credit score
- \$ Lenders know where you rate in terms of your ability to pay your bills
- \$ Lower interest rate on credit cards or loans
- \$ Saves you money
- \$ Hard to earn a high score, but easy to lose

Capacity

- Lender will look at:
- \$ How much do you make?
 - \$ How long have you been on your job?
 - \$ How much do you owe?
 - \$ How much can you afford to pay?
 - How much are you willing to pay?

Collateral

- Lenders want security:
- \$ Assets are used to secure the loan
 - \$ Collateralized loans vs. unsecured loans
 - \$ Lenders want marketable items

Capital

- \$ Checking, savings, and investment accounts
- \$ Real estate, vehicles, other assets
- \$ Net worth (Assets – Liabilities)
 - ¢ What you own = Assets
 - ¢ What you owe = Liabilities

Conditions

- \$ Outside conditions can impact the ability to pay back a loan
- \$ Outside conditions of high unemployment could cause default
- Recession or a downturn in particular industry could cause default

Borrowing Money

- \$ Shop for the best rate—including fees
- \$ Establish lines of credit during the good times for the bad times
- \$ Don't co-sign for anyone
 - ¢ You're putting your hard-earned good credit at risk
 - ¢ If the bank is unwilling to take a chance—should you?
- \$ Prepay debt—any little bit helps
- \$ Don't exceed 30% of the maximum of the credit card

I Want or Need a Car

- \$ New or used
- \$ Purchase by payments or cash
- \$ Insurance
- \$ Maintenance
- \$ Fuel cost
- \$ Other means of transportation (options)

Credit Card Terms

- \$ **Credit limit**—The maximum amount of money that you are allowed to charge on a credit card.
- \$ **Charge**—The amount of a purchase or transaction.
- \$ **Interest rate**—The percentage you are required to pay for the charges.
- \$ **Annual percentage rate**—The yearly interest rate you pay on the credit balance.
- \$ **Daily finance charge**—The interest rate you pay each day on the outstanding balance.
- \$ **Finance charge**—The interest payment you owe on the credit card balance.
- \$ **Due date**—The date payment is expected to be received.
- \$ **Outstanding balance**—The amount you must still repay if the account is not paid off.
- \$ **Minimum payment**—The least amount you are required to pay each month.
- \$ **Grace period**—A period of time a credit card company gives before interest is charged on a purchase, usually 20-25 days.
- \$ **Late fee**—The penalty for not paying by the due date.
- \$ **Annual fee**—The amount the credit card company charges each year for using their credit card.
- \$ **Over-the-limit fee**—The amount the credit card company charges for exceeding your credit limit, usually \$25–\$35.

Get the Numbers

- \$ Credit Card Repayment Calculator
 - ¢ <http://www.federalreserve.gov/creditcardcalculator/>
- \$ Cost of Credit Calculator
 - ¢ www.practicalmoneyskills.com/wizards/credit/index.php
- \$ Saving vs. Debt Calculator
 - ¢ <http://resourcecenter.cuna.org/331/article/133/html>



Get Your Credit Report

\$ 1 free credit report every 12 months from each credit reporting bureau

\$ Free if denied credit

\$ Order online at www.annualcreditreport.com

\$ Or contact the bureaus directly:

Bureau	Phone	Website
Equifax	1-800-685-1111	equifax.com
Experian	1-888-397-3742	experian.com
TransUnion	1-800-916-8800	transunion.com

Car Title Loans

\$ Short-term loans with high rates, about 25%, that are guaranteed by the title of your paid-off car.

\$ Lenders offer about 25% to 50% of the vehicle's value.

\$ Most title loans are short-term, 30 days; but failure to repay may cause the loan to "roll over" into a new loan.

\$ This usually means more fees and interest, or it could mean forfeiture of your vehicle and damage to your credit score.

If the lender charges \$50 in fees/interest, and you borrowed \$400, the APR is 325%!

Payday Loans

\$ Short-term loan; you use your next paycheck as a guarantee for the loan.

\$ \$15 per \$100 borrowed is common; so you write a check for \$115, and the lender gives you \$100 cash and holds onto your check for two weeks.

\$ After two weeks, the lender deposits your \$115 check, or directly deducts

\$115 from your checking account. Now the loan is settled.

\$ If you don't have the money in your account to repay the loan, the lender will renew or "roll over" the loan.

\$ A 15% interest rate for two weeks equates to an annual rate of about 390%!

The Federal Trade Commission recommends considering **payday loans only as a last resort.**

Resources for Budgeting

\$ Sample Budget

<http://www.moneyandstuff.info/pdfs/SampleBudgetforTeens.pdf>

\$ Budget Tips

<http://www.themint.org/teens/determine-your-budget.html>

\$ Leave Debt Behind

<http://www.leavedebtbehind.com/frugal-living/budgeting/budgeting-tips-for-low-income-families/>

\$ Tips for Young Adults

<http://www.mycreditunion.gov/protect/Pages/Tips-for-Young-Adults.aspx>

What Have We Learned?

\$ The 5 C's affect you and your credit score

\$ The higher the credit score, the lower the interest rate

\$ Protect your credit score

\$ Credit must be managed wisely

\$ Needs vs. wants

\$ Comparative shopping saves you money