Student Name Teacher Period

RESPONSIBLE CREDIT USE

Your present self impacts your future self.

When borrowing, you are spending future income.

When you borrow, you are spending future income. You pay back a loan by making regular payments (usually monthly) over time. The lender also typically expects you to pay back interest in addition to the amount borrowed.

Credit is an effective financial tool when managed responsibly. But, not managing your credit wisely and over-obligating your future income can lead to a decrease in your future quality of life and negative financial well-being.

Making Debt Payments

Every loan contract has very specific instructions about the payment terms. It is important to make the payments in the correct amount and by the due date required each month, as agreed in the contract. Late or missed payments will result in added fees, penalties, and negative entries on the borrower's credit report.

Closed-end loans, such as auto loans and mortgages, typically have equal payment amounts due on the same date each month. If the contract states there is no pre-payment penalty, the borrower can pay more than the required payment amount, but never less. Paying more than the required monthly amount will result in the loan being paid off sooner and with less interest charges.

Credit cards are a form of open-end credit. You pay interest each month on the balance of the credit card that is not paid in full. **The longer you take to pay off the total balance, the more you will pay in interest.**

Credit card companies require at least a minimum payment (usually monthly) on the amount owed. However, the minimum payment is usually only a small percentage (2.5 – 5%) of the total balance, which may not even be enough to cover the interest charge for that month. Consequently, if you only pay the minimum payment each due date you will make very slow progress toward paying off the total card balance.

Take Miranda for example. To prepare for college, Miranda purchased a new computer and textbooks, spending a total of $1,500 on her credit card charging 15% APR. It would take her 11 years to pay off the balance if she made only the required minimum payment of $30 (with no additional charges to the credit card). Counting the $1,413 in interest paid, she would end up paying $2,913 for the computer and textbooks. A larger payment of $135 per month would allow her to pay off the entire balance in just 1 year, with only $125 paid in interest.

	Payment Made	Time to pay off card	Total amount of interest paid	Total amount paid
Full Payment	$1,500	1 month	$0	$1,500
Partial Payment	$135	1 year	$125	$1,625
Minimum Payment	$30	11 years	$1,413	$2,913

Major Expenses

Housing and transportation makes up over 50% of a household's spending for most people. Since these are such large expenses, most people need to use credit in some way as a tool to make these types of purchases. This is why it's so important to use credit responsibly, even when building credit history on smaller purchases. Being responsible with credit and debt on the little things ensures that you will be able to have the best outcome when you need credit for the important things.

Credit Affects Housing

One of the biggest housing decisions you'll make is whether to rent or purchase a home. Plan on spending about 1/3 of your income on housing, which is just about the national average. The size and location of the home, amenities within the community and the local real estate market will influence the amount of money you'll spend on your housing choice.

Renting A Home

Rent is the price paid for the use of someone else's property. A **tenant** rents property from a **landlord.** The tenant pays the landlord "rent" (a fee, usually paid monthly) to live in the landlord's property. In large apartment complexes or neighborhoods with large inventories of single-family rental homes you may find yourself working with a property manager or a property management office. They're the same as a landlord; they just have more rental properties to manage.

When deciding whether or not to rent to you, Landlords or rental companies will usually require you to give them written permission to view your credit report. The rental market is competitive – there are likely several other people applying to rent the same property. The landlord wants to rent to the person who is most likely to pay the rent on time every month, without problems. Your credit report reveals to them your history in making payments as agreed. Also, if a landlord decides to rent to you, the way you behave as a renter will affect your creditworthiness for the future. If you are late in making your rent payments, or cause damage to the property that costs the landlord a lot of money to repair, those issues will show up as negative items on your credit report and may hurt your ability to get credit-related services in the future.

Buying A Home

Homeownership provides a broad range of benefits including pride of ownership, tax benefits, and the opportunity to build equity. **Equity** is the monetary value of a property minus the amount owed on the property. Because real estate property increases in value over time, owning a home is considered a valuable asset, and building equity over time will increase your net worth. However, a home purchase and ongoing costs of home

ownership also involve expenses that you wouldn't necessarily have if you decided to rent. A home purchase is a complicated transaction and represents one of the largest single investments you'll most likely ever make.

Few people can buy a home for cash. According to the National Association of REALTORS® (NAR), nearly nine out of 10 buyers finance their purchase, which means that virtually all buyers -- especially first-time purchasers -- require a loan.

A loan for the purchase of real estate is called a **mortgage**.

A mortgage is a special type of loan that is backed by the property that it is used to purchase. Under a mortgage contract, the property is considered collateral on the loan and the lender can take back the property if you do not repay as agreed. The repayment period for most home purchase loans is either fifteen or thirty years.

Credit Affects Transportation

The average person spends 17% of their income on transportation. As a consumer you have several transportation options.

Public Transportation

Some cities have limited public transportation options (taxi, subway, bus, light rail) and even in cities with well-developed networks, not all areas are covered equally. However, if public transportation is available this may be the most cost-effective option because it doesn't require you to pay the costs of maintenance and repairs associated with vehicle ownership. The cost of using the different modes of public transportation varies significantly. Some public transportation systems offer passes (usually monthly or yearly) to help reduce a user's cost.

Buying A Vehicle

When purchasing an automobile you'll discover there are two main sources of inventory: an automobile dealership and vehicles offered for sale by other consumers. Dealerships sell a variety of new and used automobiles. Private owners usually sell pre-owned vehicles.

A major decision you'll make before purchasing your automobile is whether you will buy new or used (also referred to as pre-owned). Before working with sales personnel, it is important that you carefully evaluate your needs and wants to understand what vehicle options will meet your lifestyle.

Costs associated with vehicle ownership vary depending on the make and model of your automobile and how much you drive it.

Newer automobiles have higher license and registration fees than older automobiles, but older automobiles may also cost more to maintain.

Each year the value of your automobile will decrease. This is known as **depreciation** (decrease in the value of an asset associated with the decline in its remaining useful life). The depreciation rate depends on the age of the vehicle as well as its make and model. If you used an automobile loan to finance your purchase, the remaining balance on your loan is a liability on your Statement of Financial Position.

Automobile loans are available from depository institutions or automobile dealerships. Most lenders check your credit history to determine whether you can qualify for a loan. Loan rates vary significantly, so it is important to shop around in advance of negotiating your purchase.

Most lenders require a **down payment** (the portion of the purchase price that is not borrowed) be made. The down payment amount depends on many factors including the price of the automobile and the lender's specific terms.

Depending on the amount borrowed, the car may depreciate faster than your loan balance declines. If the car's value becomes smaller than the remaining balance on your loan, you are considered "upside down with your loan." This could present an obstacle to selling or trading your car for a different model, in which case you would need to pay back the lender more than you would receive from the sale. You can reduce the likelihood that you'll have an upside down period during your loan payback if your original loan has a shorter loan term (for example, 48 months instead of 60 months) and/or a larger down payment (for example, 20% instead of 10%).

Alternative Credit Products

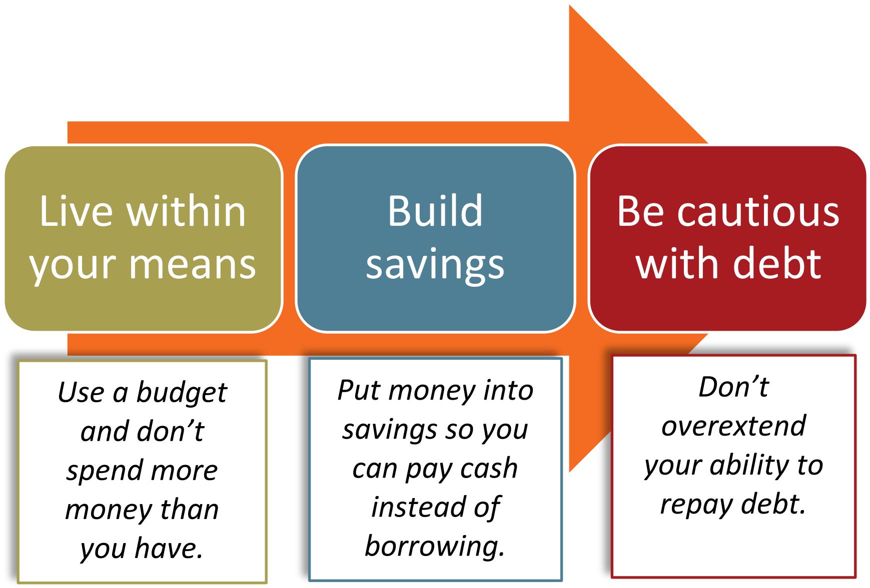
Several types of "alternative" credit have become popular in recent years. These products are also called predatory lending products because they have extremely high interest rates and fees and are typically marketed to people who are vulnerable due to a desperate financial situation.

You should understand these types of predatory credit products so you can AVOID them.

The following table outlines examples of different types of alternative credit and the most common sources:

Type of Credit	Example	Other Information	Most Common Sources of Credit
Alternative	Payday loans	▪ A short-term loan that provides immediate cash by securing a borrower's written check or receiving authorization for automatic withdrawal from the borrower's depository institution account. ▪ For example, James writes a check for $350 to the payday lender. The lender gives James $290 in cash and keeps $60 for fees. The lender holds the check until the agreed upon date, usually the borrower's payday before cashing it. ▪ Also known as cash advance loans	Payday lenders
	Rent-to Own	▪ Tangible items such as furniture, electronics or household appliances are leased with the condition that the item will be owned by the renter if the term of rent is completed. The cumulative end amount a consumer pays to lease an item is typically much higher than if the consumer bought the item from the onset.	Rent to Own retail stores
	Pawn loans	▪ A loan based on the value of personal property. The personal property is held until the borrower repays the loan, including any fees. If the owner fails to repay the loan the lender keeps the item.	Pawn shops
	Title loans	▪ The borrower gives the lender his/her automobile title in exchange for a set amount of cash. The lender holds the title until the loan is repaid. If the loan is not repaid as agreed, the lender keeps title to the item.	Title loan companies
	Refund anticipation loans	▪ Short-term cash advance secured by a taxpayer's expected tax refund. If the tax refund is less than expected, the borrower owes the lender the difference.	Varies

How To Avoid The Need For Alternative Financial Services



You are responsible for your present self and future self.

If you don't get yourself into a desperate financial position, you won't need alternative/predatory services.

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