



## Loan & Credit Card Study Guide

You're probably interested in loans and credit cards. Having the ability to borrow money enables you to obtain things you'd have to save years for: a car, a home or a college education. Credit is a great financial tool, but unless you use it wisely, you could end up with debt you can't repay.

### Your Credit History

Credit bureaus collect your personal credit information and compile it into a credit report. This report lets lenders, insurance companies, landlords, and even potential employers know how you manage money matters. It helps them decide whether or not to do business with you. A credit report includes:

- How quickly you paid off credit cards and loans--including student loans--and how well you have handled your bills (if you tend to miss payments or pay late).
- Your total outstanding debts and how much credit you still have available to use.

### Advantages of Protecting Your Credit Rating

- Qualifies you for lower interest rates on loans and credit cards
- Quicker approval for future loans
- Some prospective employers check financial backgrounds
- Satisfaction and confidence of knowing you are managing your money wisely

### Tips to Building a Credit History and Managing your Credit

- Establish a steady work record.
- Pay ALL of your bills on time.
- Apply for a credit card and make regular monthly payments. (If you don't pay your balance in full each month, you'll have to pay finance charges on the unpaid balance...and it can take years to payoff if you just pay the minimum payment amount.)
- Protect your credit cards and account numbers to prevent unauthorized use. Draw a line through blank spaces on charge slips so the amount can't be changed.
- Keep track of your spending. (Impulse purchases add up. Owing more than you can repay can damage your credit rating and make it hard to finance a car, rent an apartment, get insurance, or even get a job!)
- Stay organized. Create files for credit card and loan paperwork. Hold on to receipts to reconcile charges when your credit card bill arrives. (Common mistakes include losing bills, forgetting bills and throwing away bills because they look like credit card junk mail.)

### Before Borrowing Money

- *Shop around to identify a variety of sources:* Most consumer credit comes from banks, credit unions, finance companies, credit card companies, and even relatives.
- *Evaluate the terms of the loan or credit card:* Be sure to get a signed contract, and read the fine print so you know how finance charges are calculated, when and how much you need to pay, what happens if you miss a payment, etc. Some financial institutions charge "application fees" simply to apply for a loan. Some credit cards charge an Annual Fee simply to have the card.

- Be aware of the grace period of the card (the amount of time you have after the payment due date to make a payment) to avoid a late fee.
- *Know how to calculate the cost of credit, also known as the APR - Annual Percentage Rate:* You may have found a great deal on an item, but you aren't saving any money if it takes you years to pay it off! All lenders are required to disclose the APR when you are applying for credit.
- *Determine your debt limit:* Don't spend more than you can afford to pay each month and leave room in case of emergencies. If you must carry a balance or take out a loan, keep it manageable. Know your credit limit on your credit card. If you charge more than you're allowed, often times the credit card company will charge you an "over limit fee" or may decline the transaction.
- *Manage your credit responsibly:* Know where and when your payments are due. Some credit card companies will drastically increase your APR if you are late or miss a payment. Many charge an additional amount for a late payment on top of your finance charges. If you find yourself unable to make a payment, contact the creditor immediately and see if a repayment plan is possible. Most creditors will work with someone to get half a payment or a portion of the payment until the borrower "gets back on his feet." Never avoid collectors - this makes the situation worse.

If you do not understand something in a credit card or loan agreement, ask your parents or your Financial Services Representative for a further explanation.

### **Credit Card Examples**

You just used your credit card to buy a stereo, on sale for \$235 (the regular price was \$275). Your credit card has an APR of 20%.

*If you make the minimum monthly payment of \$10:*

How long will it take you to pay off the stereo?	More than 2½ years - 31 months!
How much will you end up paying for the stereo?	\$300.70 - so much for the sale!
How much will you pay in interest charges?	\$65.70

*If you pay \$25 each month, instead of just the minimum payment:*

How long will it take you to pay off the stereo?	Less than a year - 11 months
How much will you end up paying for the stereo?	\$257.71
How much will you pay in interest?	\$22.71

Your credit card has a special promotion – an APR of just 5.9% for six months. After six months, the APR is 21%. A cash advance has transaction fee of 3%, with a minimum fee of \$5 and a maximum fee of \$35. You decide to take a cash advance of \$1,500.

*If you make minimum monthly payments of \$60.50:*

How long will it take you to pay off the advance?	Over 2½ years - 31 months
How much will you end up paying?	\$1,870.52
How much will you pay in interest?	\$370.52

*If you pay \$120 each month:*

How long will it take you to pay off the advance?	Just over a year - 14 months
How much will you end up paying?	\$1,637.87
How much will you pay in interest?	\$137.87



## **Glossary of Credit/Loan Terms**

**Annual Fee:** A fee charged by credit card issuers in order to keep the account open.

**Annual Percentage Rate (APR):** The yearly cost of credit (interest, insurance, and the origination fee or points), expressed as a percentage.

**Assets:** Anything of value. Any interest in real or personal property which can be appropriated for the payment of debt.

**Collateral:** Assets pledged to secure repayment of a loan.

**Credit Report:** A report containing detailed information on your credit history, including identifying information, credit accounts and loans, bankruptcies and late payments, and recent inquiries. Your credit report is maintained by companies known as credit reporting agencies or credit bureaus.

**Delinquent:** Overdue or unpaid debt.

**Interest Rate:** The yearly price charged by a lender to a borrower in order for the borrower to obtain a loan. This is usually expressed as a percentage of the total amount loaned.

**Late-Fee Grace Period:** The time between the payment due date and the date a fee is assessed for non-payment / overdue payment.

**Loan Agreement:** A written contract between a lender and a borrower that spells out the rights and obligations of each party regarding a loan.

**Minimum Monthly Payment:** Lowest amount you are required to pay each month.

**Payment Due Date:** Last day a payment can be accepted without penalty.

**Promissory Note:** A promise to pay. A written contract between a borrower and a lender that is signed by the borrower and provides evidence of the borrower's indebtedness to the lender.

**Term:** Refers to the maturity or length of time until final repayment on a loan, bond, sale or other contractual obligation.

**Transaction Fees and Other Charges:** Fees for credit card cash advances, balance transfers and going beyond your credit limit.