



LifeSmarts

Learn it. Live it.

Personal Finance Lessons: About Credit “What Do You Know About Credit?” PowerPoint Discussion Notes

Slide 1

Slide Text: WHAT DO YOU KNOW ABOUT CREDIT?

Debt is the worst poverty.
— Thomas Fuller

Discussion Notes: None for this slide

Slide 2

Slide Text: LifeSmarts

Slide 3

Slide Text: What is credit?

Borrowing money to use now with a promise and an obligation to pay it back later.

Discussion Notes: What are some reasons the borrower is obligated to pay the debt they owe?

Slide 4

Slide Text: How long have people used credit?

During the rein of Hammurabi (1792-1750 BC) the first regulations of interest, forgiveness of debt and extension of credit were developed.

Merchants (and even temples, in some cases) made ordinary business loans, charging from 20 percent, for loans on silver, and 33.3 percent, for loans on grain.

Source: "The History of Credit and Debt by Steve Rhode".
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Discussion Notes: The interest rates charged back then were high, but no different than many of the rates charged consumers today.

Slide 5

Slide Text: Why use credit?

What are some advantages of using credit?

Discussion Notes: No notes for this slide

Slide 6

Slide Text: Advantages of using credit

- You don't need to carry cash.
- You have proof of purchase.
- A credit card statement is a record of your spending.
- Credit is convenient.

Discussion Notes: No notes for this slide

Slide 7

Slide Text: Some additional advantages

- Credit can provide emergency funds.
- A line of credit is a quick personal loan.
- Credit card companies will assist customers when there is a problem with a purchase.
- Credit allows the consumer to purchase big ticket items over time.
- You purchase goods and services with future income.

Discussion Notes: What are some "big ticket items" you might purchase on credit?

Consumers also use credit to purchase durable goods. What are some examples of durable goods?

Slide 8

Slide Text: Disadvantages of using credit

- You purchase goods and services with future income.
- Finance charges and interest must be paid when you use someone else's money.

Discussion Notes: You are right we have seen the first disadvantage on the advantage side. Why? How can it be both?

Slide 9

Slide Text: More disadvantages

- It is easy to overspend because you are not using cash.
- Impulse buying.
- Credit card companies charge fees—late fees, over the limit fees, etc.
- Property can be repossessed if you do not pay.
- Using credit unwisely affects your credit rating.

Discussion Notes: No notes for this slide

Slide 10

Slide Text: Identity theft is another issue

When you purchase with credit, it is possible to have your credit card information stolen and used by someone else. This is one form of identity theft that affects millions of Americans each year.

Discussion Notes: No notes for this slide

Slide 11

Slide Text: Are you familiar with these terms?

- Dumpster diving
- Pretexting
- Phishing
- Skimming

Discussion Notes: Can you describe how a thief would use these techniques to steal credit card information?

Slide 12

Slide Text: Dumpster diving

Thieves look through trash for documents that contain credit card information. This can happen at work, home or at a dump or waste management facility.

Discussion Notes: No notes for this slide

Slide 13

Slide Text: Pretexting

A request for your credit card information or other personal information by a source that might sound or look legitimate. The thief creates a “pretext”, a dishonest reason for asking you for information.

Discussion Notes: No notes for this slide

Slide 14

Slide Text: Phishing

You receive an email asking for personal information, and you are sent to a look-alike Web page. These Web sites, that look identical to legitimate business sites, request your personal information and then use it for identity theft.

Discussion Notes: Just remember your bank or a legitimate business will never ask for your credit card information over email or the phone, and you probably didn't really get selected by a Nigerian Prince to handle his family's fortune.

Slide 15

Slide Text: Skimming

A thief attaches an electronic data storage device to an ATM or retail point of sale terminal, steals your personal information and uses your credit.

Discussion Notes: It is not uncommon for thieves to make a copy of your credit card when you use it for a purchase that involves allowing your credit card out of your sight. For example, a waiter takes the credit card from the table to charge a meal.

Slide 16

Slide Text: Why offer credit?

With so many problems, why do businesses and financial institutions offer credit?

Discussion Notes: No notes for this slide

Slide 17

Slide Text: It is really very simple

- It is a service to their customers.
- It is one way they make money because you pay for the purchase and you pay interest and fees.

Discussion Notes: No notes for this slide

Slide 18

Slide Text: Who qualifies for credit?

Most people who can meet the 3 C's test.

- CHARACTER
- CAPITAL
- CAPACITY

Discussion Notes: No notes for this slide

Slide 19

Slide Text: What do the 3 C's have to do with it?

- Character is your history of repaying debt. Do you pay the required amount? Do you pay on time?
- Capital, or assets – do you have possessions that could be sold to repay a creditor?
- Capacity is your income or earning power. Can you afford a debt? How much credit do you already have?

Discussion Notes: No notes for this slide

Slide 20

Slide Text: What types of credit are available to the consumer?

- Cash credit or a simple loan
- Sales credit, a 30-day charge account that must be paid in full at the end of the month
- Universal credit cards or bank cards

Discussion Notes: What are universal credit cards?

(Visa, MasterCard, and American Express are corporations that sell their credit card programs to banks or other businesses who in turn offer these cards to consumers.)

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Slide Text:

Some other types of credit include:

- **INSTALLMENT or CLOSED CREDIT:** A loan that you repay with fixed payments each month.
- **OPEN OR REVOLVING CREDIT:** You charge throughout the month and then receive a statement at the end of the billing cycle.

Discussion Notes: Open-ended credit differs from sales credit because you can pay the entire bill or the minimum payment required.

What are some examples of installment or closed credit?

(A house payment or a car payment)

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Slide Text:

One type of credit you may need:

- A school loan for education after high school.
- Educational loans are a special category of credit and there are several types. Most often you do not have to pay interest until after you graduate from school.

Discussion Notes: Loans for college, trade school, and community college help young adults get the additional training required for career employment.

Slide 23

Slide Text:

How can I know how much credit I can afford to use?

- Credit experts advise the 20/10 Rule.

- Never spend more than 20% of your annual take-home pay for credit debt.
- Do not agree to monthly payments that are more than 10% of monthly take-home pay.

Discussion Notes: This guideline does not include a house payment.

Slide 24

Slide Text: Yes and No

“There are only two words that will always lead you to success. Those words are yes and no. Undoubtedly, you’ve mastered saying yes, so start practicing saying no. Your goals depend on it!”
— Jack Canfield

Discussion Notes: Can you apply this quote to financial decisions? To the use and abuse of credit?

How will credit influence your success after high school?

Slide 25

Slide Text: What are my credit rights?

- Federal laws have been passed specifically to protect consumers who use credit.
- They are often referred to as acronyms.
 - TILA
 - FCRA
 - FCBA
 - ECOA
 - FDPCA

Discussion Notes: No notes for this slide

Slide 26

Slide Text: What do all those letters stand for?

- TILA—Truth in Lending Act
- FCRA—Fair Credit Reporting Act
- FCBA—Fair Credit Billing Act
- ECOA—Equal Credit Opportunity Act
- FDCPA—Fair Debt Collection Practices Act

Discussion Notes: None of the above is great reading, but if you are mature and financially savvy enough for a credit card, you should be aware of your rights and responsibilities.

Slide 27

Slide Text: The Federal Trade Commission

The Federal Trade Commission, or FTC, works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. For additional information visit ftc.gov.

Source: Federal Trade Commission-Bureau of Consumer Protection

Discussion Notes: The FTC is the federal agency that provides detailed information about credit laws to consumers, and is one place that consumers should report suspected fraud regarding the use of credit.

Slide 28

Slide Text: The Truth in Lending Act—TILA

- Under this law creditors must disclose specific information in any offer they make to the consumer. Some of the information required by law includes:
 - The APR
 - Finance charges
 - Minimum payment required
 - Method used to compute interest
 - Grace period
 - Annual fee, if any
 - Credit limit

Discussion Notes: One of the purposes of this act was to make it easier for a consumer to understand the terms of credit, and also to compare credit offers.

Slide 29

Slide Text: Fair Credit Reporting Act—FCRA

- The federal Fair Credit Reporting Act promotes the accuracy and privacy of information in the files of the nation's consumer reporting companies.

- Under the FCRA you have the right to receive a free copy of your credit report every year from each credit reporting agency.

Discussion Notes: Beware of companies trying to sell you a copy of your credit report, they have catchy ads about providing you free credit reports, but charge a fee to provide a monthly credit report monitoring service.

Check the fine print.

Slide 30

Slide Text: Equal Credit Opportunity Act—ECOA

- ECOA prohibits credit discrimination. This means that creditors may not use sex, race, marital status, religion, national origin, age or the receipt of public assistance against you when deciding to grant credit.
- This law also requires that if you are denied credit you have a legal right to know why.

Discussion Notes: No notes for this slide

Slide 31

Slide Text: Fair Credit Billing Act—FCBA

- Covers the procedures for resolving mistakes and disputes on credit billing statements. Consumers should check billing statements carefully and when they find an error notify the company immediately.
- The FCBA generally applies only to open credit account and does not apply to closed or installment credit until the loan is paid in full.

Discussion Notes: No notes for this slide

Slide 32

Slide Text: Fair Debt Collection Practices Act—FDCPA

- According to the FTC this law requires that when you fall behind on your credit obligations the debt collector is required to treat you fairly.

- The law includes specific rules about when and how they may contact you.

Discussion Notes: No notes for this slide

Slide 33

Slide Text: LifeSmarts: Learn It, Live It

LifeSmarts is:

- An educational program teaching teens and tweens important real-life knowledge
- A competition – students compete online and in-person
- A teaching toolbox. [Check out our resources](#)
- An opportunity for students to gain leadership skills, and fulfill [community service requirements](#)
- A chance to develop strong partnerships with national groups such as FBLA and FCCLA

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