



Money Mondays

Personal Credit



April 26, 2021

What is “Credit”?

Merriam Webster

- Reliance on the truth or reality of something *or*
- The provision of money, goods, or services with the expectation of future payment

In practical finance terms, “credit” is a person’s ability to:
(a) buy something (now) and (b) pay for it later or over time

Discussion Questions:

- Should you ever buy something that you can’t pay for in full now?
 - Why might you do this / for what sorts of purchases?
- What other benefits does the concept/use of “Credit” enable in modern society?
- Flip the concept: if your best friend asked you for a \$2,000 loan, would you give it to them? If so, what would you want to agree with them first?

Why is Your Credit important?

Landlords

- ✓ Credit “check” required for most rental applications

Credit Card Issuers

- ✓ How much credit capacity will they provide you?
- ✓ What will your minimum monthly payment be?

Mortgage Lender or
Auto Lender

- ✓ Can you afford to buy a particular home/car with a loan based on your income, assets and repayment schedule?
- ✓ What will your interest rate (APR¹) be?

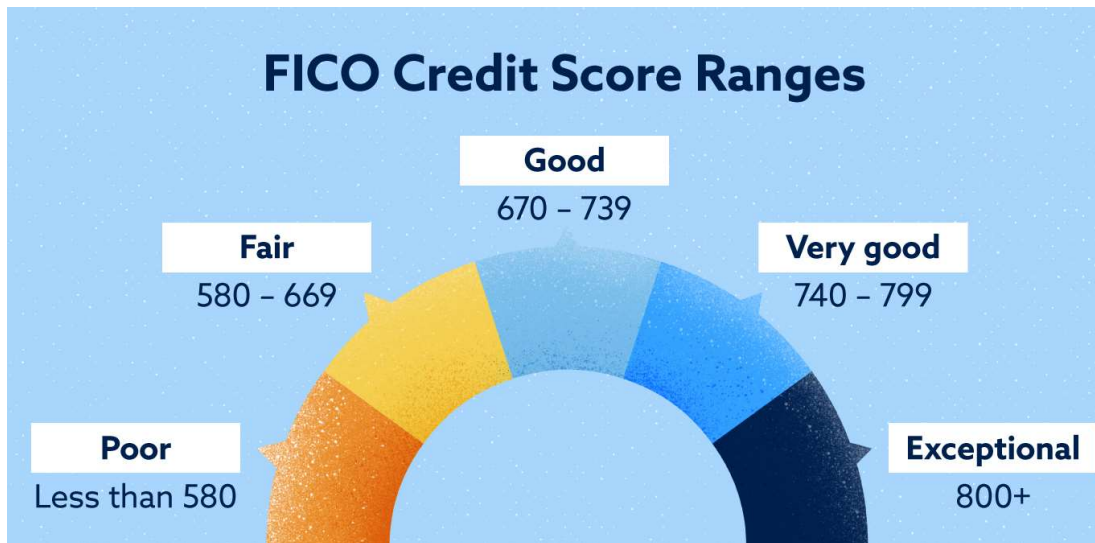
Insurers
(for car, home, etc.)

- ✓ Insurance premium amount (monthly cost)

(1) APR = “Annual Percentage Rate”

How is the Quality of your Credit determined?

The Standardized Metric used in finance is called a FICO Score¹ which ranges from *300 to 850*



What Goes Into Your FICO Score?

- Have you missed/been late on payments?
 - e.g., phone bill, car, credit cards
- How many open accounts do you have?
- How old are your open accounts?
- How much do you owe in total
 - Student loans, mortgage, credit cards...

How can you improve your FICO score?

- Don't miss any payments, double/triple check your accounts!
- Avoid carrying credit card balances month to month
- Keep one old account (credit card) open even if you only rarely use it
- Keep your total debt load manageable vs. your income



(1) FICO = named after the "Fair, Issac and Company," which developed the score to assess consumer credit in the 1950s.

Types of Personal Credit

Open Credit

(Gas, electric, water bills)

- Must pay full amount monthly to avoid penalties
- No Interest rate

Installment Credit

(Mortgages, student loans)

- Fixed loan amount, meant for very large purchases/ investments
- Fixed payments, usually over longer period of time (10-30 years)
- Exact time frame for payment

Revolving Credit

(Credit Cards)

- Can continuously spend money up to a credit limit
- Monthly payments:
 - Can pay off any time
 - Minimum payment required each month
- Can carry a Debt Balance over month to month but will pay high interest rate (20+%)

Factors To Consider When Choosing a Credit Card

**Interest
Rates**

**Reward
Program**

**Introductory
Rates**

Fees

Before opening a credit card, ask yourself a few questions:

- What credit score is needed?
- How will I use the card?
- Why do I want to open the card?
- Is there an annual fee? Other fees?
- What is the interest rate?
- What is the repayment cycle?



Dos and Don'ts of Credit Cards

Dos

- Be thoughtful about what credit limit you will need / use
- Pay off your balance each cycle
- Compare cards before selecting
- Look for cash back / other rewards and special offers

Don'ts

- Open too many cards at once
- Carry balances across cycles
- Pick a card with high annual fees

Remember – you own the spending on your credit cards!

Helpful Resources

More questions? Try the below websites / tools:



Questions?

