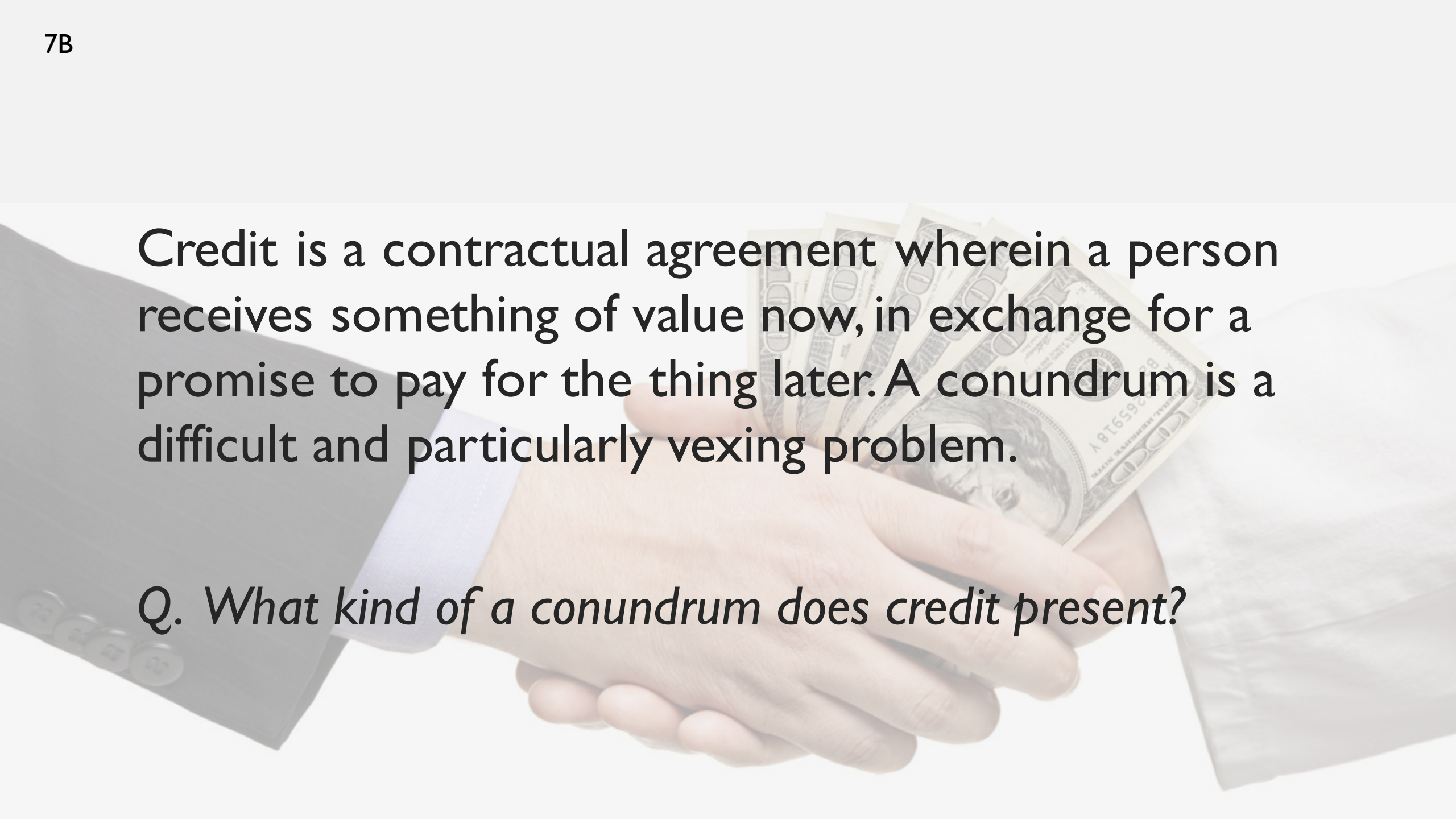


THE CREDIT CONUNDRUM

Lesson 7

A close-up photograph of a hand holding a stack of US dollar bills. The hand is positioned in the center, with fingers gripping the edges of the bills. The bills are fanned out slightly, showing various denominations including a \$100 bill. The background is a soft, out-of-focus grey, suggesting a business suit sleeve. The overall image has a clean, professional aesthetic.

Credit is a contractual agreement wherein a person receives something of value now, in exchange for a promise to pay for the thing later. A conundrum is a difficult and particularly vexing problem.

Q. What kind of a conundrum does credit present?

I. WHAT IS CREDIT, REALLY?

- **In a financial context:**

- ❖ credit is a contractual agreement wherein a person immediately receives something of value by promising to pay for the thing later.

- **It's a simple concept:**

- ❖ someone borrows someone else's money (usually a bank's) to buy something today and repay the money at a later date with interest, which is a fee charged to use the money. The borrowed money is called a loan.

II. THE BENEFITS OF CREDIT: PURCHASING POWER

I. Global Wealth-building.

- ❖ *Credit is very important because it provides capital, which is money that can be used to produce or acquire things of value*

Consumer vs. Non Consumer Credit

- ❖ Consumer Credit: Loans made for the purchase of non-investment types of goods or services for personal, family, or household purposes
- ❖ Non-consumer Credit: used to pay for things that build wealth or increase in value over time

IV. THE DANGERS OF CONSUMER CREDIT

- Consumer Debt.
- Overspending.
- The Cost.



VI. CREDIT REPORTS, CREDIT SCORES AND DTI RATIOS

- Credit Report.
- Credit Score.
- Debt-to-Income Ratio

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Free look!

*Go ahead - check it out.
You can get one free credit
report every 12 months
from each of the three
bureaus. Checking your
own credit score does not
affect your credit score.*

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VII. STUDENT LOANS POST COLLEGE

- Student lenders report to credit bureaus
- Track loan status through NSLDS
- Delinquencies = unpaid 90 days
- Defaults = unpaid 270 days
- Deferments and forbearances are available for hardship and grad school

THE BIG PICTURE

- Credit provides capital (ie. money!) Historically, credit is very important because it fueled exploration, economic expansion, and innovation. Consumer credit provides the average person with purchasing power enabling immediate access to many items that are key to quality of life. Credit cards are the main form of consumer credit in the U.S. The downside of credit is debt. Debt must be carefully managed and aggressively paid off or it can seriously set back wealth-building efforts. Some forms of debt are beneficial for building wealth such as a college education, a car, and homeownership. To build a good credit history after college, pay your student loan back according to the repayment schedule. Contact the student lender if you need a deferment or forbearance.

PONDER & PREDICT

- With regard to building wealth, time is a particularly powerful ally. How so? What power does time have over money?