FLY-IN

Financial Literacy for Young Women

Funded by the Erasmus+ Programme of the European Union

Module 2 : Personal credit

Remember – Group Agreement

- respect people’s confidentiality
- be non-judgemental
- be patient when others are speaking
- respect others’ opinions
- work according to the schedule
- work to understand cultural and professional differences

- everyone has the right to be listened to
- to have fun and enjoy the course
- to make mistakes
- to be respected
- to share ideas
- Be active!
- Be positive and creative!

AIMS and OBJECTIVES

- What is personal credit ?
- What are the 4 types of credit ?
- An overview of Personal Credit Report and Personal Credit Scoring
- Use of personal credit pros and cons

Personal credit - introduction

- What is personal credit ?

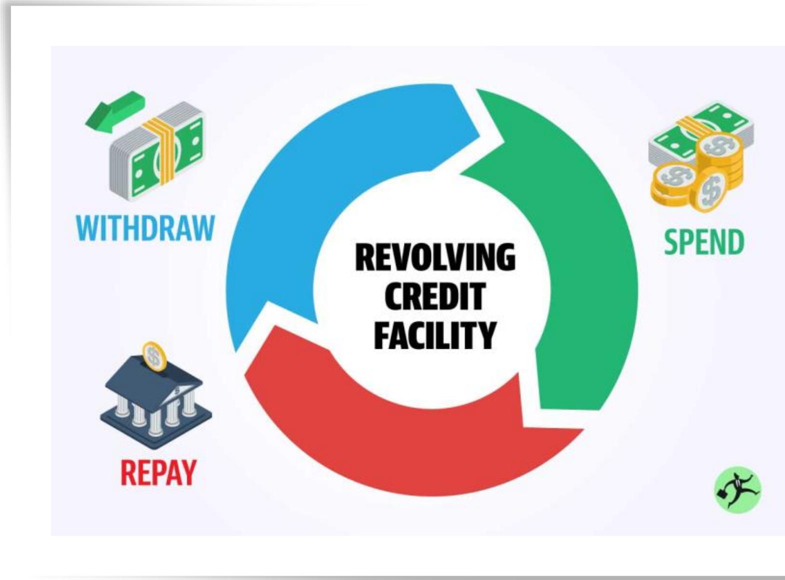
➢ When you first take out a line of credit as an individual—your first credit card, or loan to pay for college ,you begin your personal credit history .

- Use of credit

➢ Credit can be a convenient and effective financial tool , if you use it responsibly .

➢ Cashless transactions are soon becoming the way of the future !

Four Common Forms of Credit



1. **Revolving credit**

- Allows you to borrow money up to a certain amount ;
- The lending institution sets a credit limit ;
- Interest charges occur for any revolving balance;
- The most common form of credit issued by credit cards, such as Visa, MasterCard, and store and gas cards ;
- No collateral needed .

2. **Charge cards**

- The major difference between a credit card and a charge card is the credit card can carry a balance , whereas the charge card must be paid in full each month ;
- If the balance is not paid on time and in full, penalty fees will be added.

3. Installment credit

- Involves a set amount borrowed, a set monthly payment and a set timeframe of repayment;
- Interest charges are pre-determined and calculated into the set monthly payments ;
- Common forms : home mortgages, student loans and auto loans.

4. Non installment or service credit

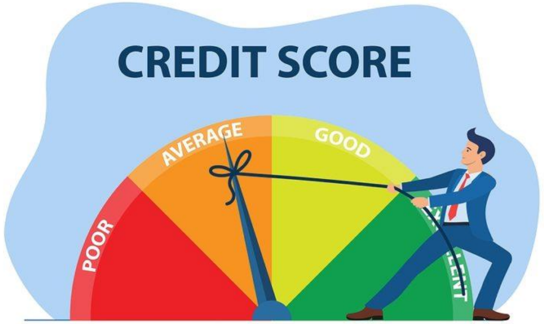
- Allows the borrower to pay for a service, membership, etc. at a later date ;
- Payment is due the month following the service, and unpaid balances will incur a fee, interest, and/or penalty charges ;
- Continued non-payment will result in service cancellation and can be reported to the credit bureau ;
- Cell phone, gas and electricity, water and garbage are all examples of service credit.

Interest Rates

- Interest is a cost of borrowing money.
- Lenders generally charge a certain percentage of the average daily balance of your account, which is called an interest rate.
- This interest rate is applied to your outstanding balance on a monthly basis.
- Credit cards may have different interest rates for different types of activities, like purchases or cash advances, so make sure you read the fine print.
- Most common fees : annual , transaction , balance transfer , late payments , over – credit – limits , return items .
- **Credit limit** is the maximum balance you can have on your credit card. It is determined by your lender, based on your credit history and income.

Credit Score vs. Credit Report

- When you apply for a credit card, apartment rental etc , two things help would-be lenders assess the likelihood that you'll pay as agreed: your **credit scores** and **credit reports**.
- Your credit reports hold detailed information about your past use of credit. That data then gets calculated into a simple number representing your creditworthiness — a credit score
- Good credit scores are key to accessing financial products.



Credit score

- A credit score is a number that lenders use to evaluate how safe or risky you are as a customer .
- The most important factors to consider when managing your credit score include:

➢ Your history of repayment, and whether you have derogatory marks for paying late or defaulting ;

➢ How much money you owe compared to your credit limits, called credit utilization ratio ;

➢ How often you have applied for credit recently, called "hard inquiries“ etc.

- **FICO score** - One of the most commonly used credit scoring formulas is Fair Isaac's FICO score, which ranges from 300 (low) to 850 (high). The higher your score, the more likely you are to be approved for new credit, or offered a lower interest rate . Many factors from your credit history are used to calculate your FICO score .

Credit report

- Your credit reports give a comprehensive list of your lines of credit and payment history, but they don’t contain your credit score.
- Credit reports often run to many pages as they detail your accounts and how diligently you've paid off outstanding balances.
- Negative information such as repossessions or bankruptcies will appear on your credit report, too.
- It’s important to establish a credit history because credit reports can be used to determine applicants’ eligibility for loans, credit cards, rentals, insurance policies and jobs.

Good Credit vs. Bad Credit

- Having good credit means that you are making regular payments on time, on each of your accounts, until your balance is paid in full.
- Bad credit means you have had a hard time holding up your end of the bargain , you may not have paid the full minimum payments or not made payments on time.
- **Is using a credit a good thing?**

➢ Credit is something everyone uses. Every time you use the telephone or turn on a light or the air conditioning, you're using credit just as you are every time you use a credit card or take out a loan.

Pros and cons of using a credit

- Credit represents an agreement to receive goods, services or money now and pay for them in the future.
- Only you can decide how to spend your money and whether you will use credit.
- These decisions should be based on your ability to repay credit debt, not just on what you want to buy at the moment.
- To help you decide whether to use credit, consider the advantages and the disadvantages of credit.

Advantages of Credit

- Convenience
- Use other people’s money
- Meet emergencies
- Use something while you pay for it
- Get something you can’t afford now
- May get better service on something bought on credit
- Take advantage of sales
- Establishes a credit history

Disadvantages of Credit Use

- Credit almost always costs money
- It can become a habit and encourages overspending
- Overuse of credit leads to a poor credit record
- Comparison shopping may be discouraged
- Reduces future buying power
- Extra fees add to the total cost

Thank you for attending!