

NAME: \_\_\_\_\_

DATE: \_\_\_\_\_

## Credit and Debt Collections



### Big Ideas

- Not all credit resources are bad. In fact, in some cases, credit can work to your benefit and help save you some money.
- You must be careful about when you choose to use credit. It is critical that you pay the debt on time.
- Loans and credit lines are not given based on opinion. Financial institutions give loans and credit based on specific criteria and your credit history.
- Sharing credit with or cosigning a loan for another person can have a long-term effect on your credit score and your ability to borrow in the future.



### Key Terms

- **credit:** the ability to buy goods or services now but pay later
- **debt:** money owed
- **interest:** payment for the use of money, a fee paid to use someone else's money, or money earned from allowing someone else to use your money
- **credit history:** a record of your personal financial transactions
- **credit score:** a standardized measurement of the potential for a borrower to repay debt
- **cosign:** sign (a loan or lease) jointly with another person in order to guarantee payment

### 1. Tips for maintaining healthy credit

**Check your credit regularly.** You are allowed one free credit report from each of the three credit agencies (Equifax, Experian, and TransUnion) each year.

**Pay your bills on time.** If you ever get into financial trouble and can't pay a bill, contact the company and ask about payment options. Lenders often are willing to help.

Keep the amount you owe **less than the maximum** you could borrow.

**Call 888-5-OPT-OUT** and remove your name from lenders' preapproved lists to avoid unnecessary checks on your credit.

**Think twice before cosigning a loan for another person.** If the co-borrower doesn't pay, you will be held responsible, and your credit could be ruined.

Know what you're agreeing to—**always read the fine print** on credit offers and credit repair offers.



## 2. Credit cards

When the budget gets tight, it is easy to reach for the credit card instead of making cuts elsewhere. But paying interest on those cards takes even more money from your budget in the future.

**Leave accounts open** for several years, **use them regularly** to show activity, and **pay them off in full each month**. Frequently getting new cards, or having cards you never use, can hurt your credit score.

Only use a credit card if you know where the money is coming from to pay it off in full each month.

In 2014, Mint.com reported that for those households that had credit card debt, the average family's debt was between \$7,115–\$15,252.

## 3. Student loans

On average, higher education means increased income, but too much debt from student loans can be harmful to your personal finances.

If you cannot cover the cost of higher education with your savings and income, or through grants and scholarships, you might consider getting a loan.

If possible, **plan early and build savings** to minimize the need for student loans.

**Look into scholarships, grants, and other sources of money** that don't require you to take on debt.

**Read the fine print** on any loan; shop for the best interest rate and loan package.

## 4. Other credit resources

**Payday and installment loans:** These loans often have **extremely high interest rates** and a **very short time** in which to pay them back.

**Only take the loan if you have a plan to pay it back plus—interest—on time.**

**Pawn shops:** Pawn shops offer either cash or a loan in exchange for an item, and the amount paid typically is only a small fraction of the item's actual worth. If the loan is not repaid with interest, the shop will sell the item to pay the debt.

**Only take the loan if you have a plan to pay it back plus interest**—or if you're willing to lose the item you leave there.

**Rent-to-own:** Rent-to-own stores offer high-cost items in exchange for a monthly rent. Once a predetermined amount has been paid, the consumer owns the item.

**Consumers can end up paying several times the actual price of the item**, so it's important to **read the fine print** and **exercise caution** before using these services.

## 5. Who cares about your credit?

Banks and other financial institutions that extend credit care about how good your credit is, of course, but so do a surprising number of other groups.

**Car and home/renter's insurance companies:** You may pay more for insurance or be denied a policy if your credit is bad.

**Utility companies:** Electricity, gas, water, phone, and other utility companies want customers with a history of paying their bills on time.

**Landlords:** Landlords use credit reports to screen for people with a history of not paying their debts.

**Employers:** Many companies will review your credit report before offering you a job. Your credit report is your reputation, and they are looking for clues about what kind of employee you will be. If you have bad credit, some jobs may exclude you from applying.

## Sharing Credit Decisions

When considering whether to share credit and debt with another person, both people need to consider the other person's credit behaviors and relationship behaviors.

### Healthy Credit Behaviors

- **Payment history:** The person makes payments on time
- **Amount of money owed:** The person avoids taking out loans he or she can't afford
- **Length of credit history:** The person maintains credit accounts in good standing over time
- **Ratio of credit available and credit used:** The person avoids maxing out credit limits

### Healthy Relationship Behaviors

- **Honesty:** be truthful
- **Respect:** show that you value the other person's opinion
- **Trust:** have confidence in one another
- **Taking Responsibility:** own your decisions and actions