Establish Healthy Credit
In what state and/or county are you logging in from today?
What comes to mind when I say the word “credit”? 
1 : reliance on the truth or reality of something

2 a : the balance in a person’s favor in an account
   b : an amount or sum placed at a person’s disposal by a bank

3 a : influence or power derived from enjoying the confidence of another or others
   b : good name : ESTEEM; also : financial or commercial trustworthiness

8 a : a recognition by a school or college that a student has fulfilled a requirement leading to a degree
Credit can be defined as...

Money that a bank or business will allow a person to use and then pay back in the future

A record of how well you have paid your bills in the past

An amount of money that is added to an account

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Charges</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/23/2018</td>
<td>Refund</td>
<td></td>
<td>$24.99</td>
</tr>
</tbody>
</table>
• Define terminology related to credit and debt
• Understand the pros & cons of credit usage
• Distinguish between different types of credit & credit cards
• Describe ways credit can be used to accomplish financial goals
• Identify healthy habits for responsible credit use & debt management
Taking a Closer Look at

TYPES OF CREDIT
Types of Credit

Secured

Unsecured

Rrevolving

Installment
<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Secured</th>
<th>Unsecured</th>
<th>Revolving</th>
<th>Installment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto Loan</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Credit Card *</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Home Equity Loan</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Medical Bills</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Mortgages</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payday Loans</td>
<td>?</td>
<td>?</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Student Loans</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
Not All Cards Are Created Equal

Debit
- Money from account now
- Low cost to get cash

Credit
- Pay bill later
- High costs to access cash
Which card is safer to use?

Debit  OR  Credit
Credit is Safer

If Credit Card is Lost

You are protected by federal law.
Your liability is limited to no more than $50.

When Online Shopping

If you don’t receive a product ordered or if the product isn’t what as described, you can stop payment when you use a credit card.
Credit Cards & THE LAW
Protections for Consumers

Credit CARD Act (2009)

• Limits increases on credit card interest rates
• Prohibits certain billing & payment practices
• For new credit card accounts, the interest rate cannot change for 12 months
Credit card companies can NOT raise interest rates on existing balances. EXCEPT:

• If your interest rate is variable and tied to an index, and that index goes up.
• You are more than 60 days late on a payment.
• Your card has an introductory period with a teaser rate.
• You are in a workout agreement and don’t make payments as agreed.
Other Important Protections

*Increased rates only apply to new charges.*

If you open a *new* credit card account, the interest rate cannot change for 12 months.

Six months after an interest rate increase, there must be a review with a possible reduction in interest rate.
Under 21: Harder to get a Card

No recruiting on campus

Must co-sign with a parent or prove capacity to repay
CAUTION:

Some lenders are accepting scholarships & student loans as proof of capacity to repay
Consumers Beware!

- The law does not limit how much your interest rate can rise if you’re 60 days late
- Your minimum monthly payment can change
- Watch for new fees
Credit

PROS & CONS
Case Study: The Good

Cindy’s Use of Credit

Goal: earn rewards

Method: pays entire balance every month
The Upside of Credit

- Buy/consume now, pay later
- Protection against fraud
- Cope with emergencies
- Establish favorable credit history
- Credit cards good for record keeping
- Convenient for making reservations
Case Study: The Bad

Bob’s Use of Credit

Goal: obtain goods & services now

Method: maintains a revolving balance
The Downside of Credit

• Fees (and interest) can be costly
• Credit makes it easy to overspend and damage your credit history
• Someone could steal your account number
Credit: Fact or Myth?

Carrying a balance is good for your credit score.
MYTH

Carrying a balance is good for your credit score.
Shopping for CREDIT CARDS
Each type of credit card has their strengths & weaknesses.

To determine which credit card is best for you, consider your

- Financial resources
- Previous experience
- Intentions with credit
Premium Credit Card

Pros

– lower interest rates
– more reward options
– fewer credit card fees

Cons

– Higher annual fee
– May not qualify based on poor credit

Given to customers who demonstrate their creditworthiness & ability to pay their debt off easily
Secured Credit Card

Made for people who have experienced credit problems or have lower/no credit history

Pros
- Establish or re-establish credit
- Lower credit limits

good for managing debt
bad for large purchases

Cons
- Requires security deposit
- Often has higher rates
Student Credit Card

Starter card for college students with lower credit limit

**Pros**
- Establish credit
- Lower credit limits
  - Easier to limit debt

**Cons**
- Often has higher rates
- Lower credit limits
  - Harder to make large purchases
Standard Personal Credit Card

Most prevalent type of credit card; Offered to the general population

Pros
– Lower annual fee (if any)
– Wider range of credit limits

Cons
– Rates may be variable
– Harder to comparison shop
Retail Credit Card

Can only be used at the store or gas station associated with the credit card

Pros

– Get extra loyalty rewards
– Special access to services & products

Cons

– Can often only be used at single location or chain
– Harder to comparison shop
Business Credit Card

Card to help with business purchases, record keeping and separate business & personal expenses

Pros

– Credit limits tend to be higher
– Bonus rewards for points and/or cash back to invest back into business

Cons

– Small businesses may not be covered by consumer protections of Credit CARD Act of 2009
– Could affect business AND personal credit*
Shopping for a Credit Card

Do You…

Pay balances in full most months (convenience user)

Carry a balance (a revolver)

Go over the limit

Pay late

Pay Attention to…..

Annual fees

Interest rate (APR)

Over the limit fees, default terms, online options to track balances

Late payment fees, default terms, online options to pay
<table>
<thead>
<tr>
<th></th>
<th>Premium Emerald</th>
<th>Standard Green</th>
<th>Secured Lime</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit Limit</strong></td>
<td>$20,000</td>
<td>$3,000</td>
<td>Limited to deposit</td>
</tr>
<tr>
<td><strong>APR</strong></td>
<td>8.5%</td>
<td>12.5%</td>
<td>19.5%</td>
</tr>
<tr>
<td><strong>Rewards</strong></td>
<td>6% cash back</td>
<td>2x points on travel</td>
<td>1% cash back on gas</td>
</tr>
<tr>
<td><strong>Fees</strong></td>
<td>Annual fee = $350</td>
<td>Annual fee = $0</td>
<td>Annual fee = $30</td>
</tr>
<tr>
<td></td>
<td>Late fee = $25</td>
<td>Late fee = $35</td>
<td>Late fee = $25</td>
</tr>
<tr>
<td></td>
<td>Cash back fee = 7%</td>
<td>Cash back = $2 + 5%</td>
<td>Over the limit fee = $39</td>
</tr>
<tr>
<td></td>
<td>Over the limit fee = $39</td>
<td>Over the limit fee = $39</td>
<td>Late payment = $25</td>
</tr>
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Establishing HEALTHY CREDIT
Credit: Fact or Myth?

Credit card companies won’t send you offers you can’t afford.
MYTH

Credit card companies won’t send you offers you can’t afford.
Monitor Credit Activity

<table>
<thead>
<tr>
<th>Total Balance</th>
<th>$3,250</th>
<th>Statement Balance</th>
<th>$1,959</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available Credit</td>
<td>$10,000</td>
<td>Minimum Payment Due</td>
<td>$35</td>
</tr>
<tr>
<td>Minimum Payment Due on</td>
<td>May 14</td>
<td>Reward Dollars</td>
<td>$492</td>
</tr>
<tr>
<td>Program Number</td>
<td>12345678910</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**New Balance:** $3,250.00  
**Minimum Payment due:** $90.00  
**Payment Due Date:** 4/20/18

**Late Payment Warning:** If we do not receive your minimum payment by the date listed above, you may have to pay a $35 late fee and your APRs may be increased up to the Penalty APR of 28.99%

**Minimum Payment Warning:** If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:
- If you make no additional charges using this card and each month you pay:
  - You will pay off the balance shown on this statement in about...
  - You will pay an estimated total of...

- **Only the minimum payment:** $103  
  - 11 years  
  - $3,712  
  - (Savings = $1,033)

- **Minimum Payment:** $103  
  - 3 years  
  - $3,712  
  - (Savings = $1,033)

**Rewards as of Mar 2018:**  
- 250.50

For more info on Rewards, please visit go.uillinois.edu/getsavvywebinars
Account Activity

You can review your account activity many ways.

If you didn’t make a purchase, contact your credit card company immediately.
Statement Balance
$3,000
$35.00 minimum payment due on May 14

Recent Payments and Credits $0.00
Recent Charges $250

Total Balance $3,250
Available Credit $1,750

If reviewing your statement in a mobile app, you may not see:
- Late payment warning
- Minimum payment warning
- Notice of changes to interest rates
- Changes to account terms
<table>
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<th>New balance</th>
<th>$3,000.00</th>
</tr>
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<tr>
<td>Minimum payment due</td>
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<td>Payment due date</td>
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<td>Only the minimum payment</td>
<td>11 years</td>
<td>$4,745</td>
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<td>$103</td>
<td>3 years</td>
<td>$3,712</td>
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Rewards as of Mar 2018

250.50

For more info on Rewards, please visit go.uillinois.edu/getsavvywebinars

Account Summary

<table>
<thead>
<tr>
<th>Previous Balance</th>
<th>$2,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments/Credits</td>
<td>-$500</td>
</tr>
<tr>
<td>New Charges</td>
<td>+$1,000</td>
</tr>
<tr>
<td>Fees</td>
<td>+$0</td>
</tr>
<tr>
<td>Interest Charged</td>
<td>+$0</td>
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<th>Credit Limit</th>
<th>$5,000</th>
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<tr>
<td>Available Credit</td>
<td>$2,000</td>
</tr>
<tr>
<td>Cash Advance limit</td>
<td>$350</td>
</tr>
<tr>
<td>Available Cash</td>
<td>$350</td>
</tr>
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Days in Billing Period: 32
New balance | $3,000.00
---|---
Minimum payment due | $90.00
Payment due date | 4/20/18

**Late Payment Warning:** If we do not receive your minimum payment by the date listed above, you may have to pay a $35 late fee and your APRs may be increased up to the Penalty APR of 28.99%

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**Rewards**

as of Mar 2018

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<th>Interest Charged</th>
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<tr>
<td></td>
<td>$2,500</td>
<td>-$500</td>
<td>+$1,000</td>
<td>+$0</td>
<td>+$0</td>
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</table>
Your Annual Percentage Rate (APR) is the annual interest rate on your account.

<table>
<thead>
<tr>
<th>Transactions</th>
<th>Dated</th>
<th>From</th>
<th>To</th>
<th>Annual Percentage Rate</th>
<th>Balance Subject to Interest Rate</th>
<th>Interest Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases</td>
<td>08/25/2012</td>
<td>18.49%(v)</td>
<td>$0.00</td>
<td>$0.00</td>
<td></td>
<td>$0.00</td>
</tr>
<tr>
<td>Cash Advances</td>
<td>08/25/2012</td>
<td>26.49%(v)</td>
<td>$0.00</td>
<td>$0.00</td>
<td></td>
<td>$0.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$0.00</strong></td>
</tr>
</tbody>
</table>

(v) Variable Rate
Dealing With Debt

1. Electronic store credit card
   • $76 monthly payment

2. Car loan
   • $359 monthly payment

3. Department store credit card
   • $128 monthly payment
Talk to Your Lender

- Ask for a lower interest rate
- Ask for a lower credit limit
- Ask to change when your bill is due
- Discuss your situation & set up a payment plan
- Put all agreements in writing
# Using Credit Wisely

<table>
<thead>
<tr>
<th>Do</th>
<th>Don’t</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only charge what you can afford</td>
<td>Exceed your credit limit</td>
</tr>
<tr>
<td>Always pay your bills on time</td>
<td>Use frequent cash advances</td>
</tr>
<tr>
<td>Understand your card terms &amp; conditions</td>
<td>Lend out your credit card</td>
</tr>
<tr>
<td>Create an emergency fund</td>
<td>Use balance transfers</td>
</tr>
<tr>
<td>Limit the number of credit cards you have</td>
<td>Cosign on debts you can’t afford</td>
</tr>
<tr>
<td>Recognize signs of credit trouble</td>
<td>Pay one credit card with another credit card</td>
</tr>
</tbody>
</table>
One central place to order FREE reports

Do not contact the credit bureaus individually or directly

annualcreditreport.com

Equifax

Experian

Transunion
Having Healthy Credit Can…

- Reduce how much you pay for insurance
- Empower you with another way to achieve goals
- Improve your ability to land a job (in some states & professions)
- Increase your ability to get a loan in the future
- Lower interest rates & other costs
Financial Literacy Badges Program

Take a step towards the Borrowing Badge.

Establish Healthy Credit Quiz:

go.uillinois.edu/establishhealthycreditquiz

More information about the Financial Literacy Badges Program can be found at GO.UILLINOIS.EDU/FLBADGES
Stay in Contact with Us!
Thank You