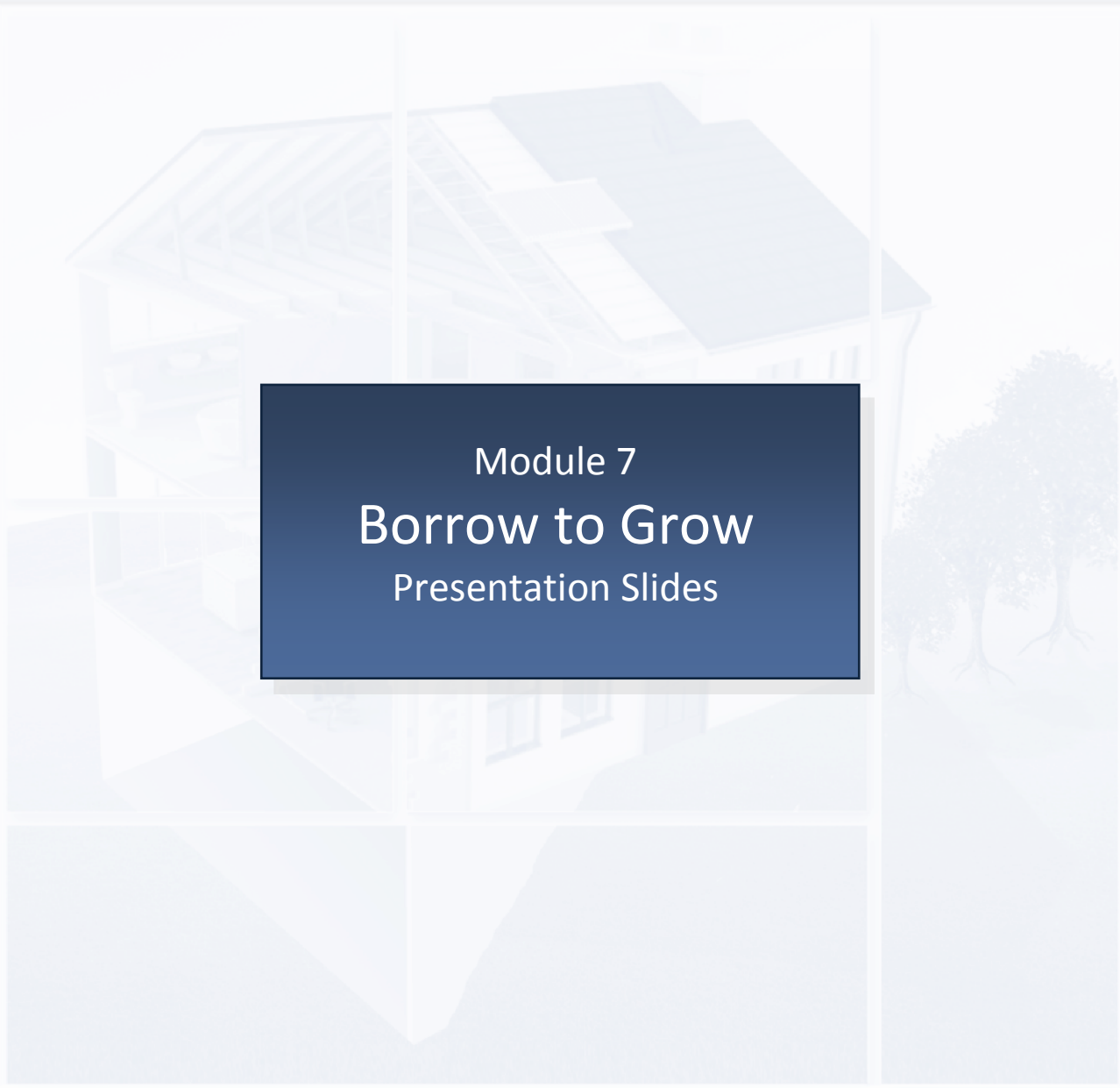


Building Your Financial House

Set the Foundation of Your Future



Module 7 Borrow to Grow Presentation Slides





Building Your Financial House WELCOME

Prior to Today's Session

The image shows two overlapping screenshots from the PHFA website. The left screenshot is titled 'Building Your Financial House: Set the Foundation' and shows 'Module 7: Borrow to Grow Participant Guide'. The right screenshot is titled 'Self-Assessment and Track Your Progress' and contains a 'Pre-session Questionnaire' with multiple-choice questions about credit history, debt management, and financial goals. Below the questionnaire is a 'Self-Assessment and Track Your Progress' form with sections for 'Current Position', 'Post-Session Progress', and 'Action Items'.

Today's Topics

- Types of Credit
- Getting and Using Credit
- Credit Reports and Scores
- Dissecting Your Debt
- Avoiding Predatory Lending

-
- 1 Invest in Yourself
 - 2 Maximize Earnings
 - 3 Spend Sensibly
 - 4 Check Taxes
 - 5 Make Money Work
 - 6 Protect Your Potential
 - 7 Borrow to Grow

Finally, only borrow to buy things (assets) that will grow and feed your financial future, like seeds of a fruit tree.

Borrowing in excess, similar to overwatering a seedling, can slow your financial growth, weigh it down, and drown it out.

7 Borrow to Grow

- Identify the types and appropriate uses of "other people's money" (OPM)
- Identify the four main factors that affect the total cost of credit
- Be familiar with credit reports and scores, how to get them, and how lenders use them
- Recognize the credit risk to cost relationship and way to improve credit worthiness
- Be familiar with information lenders must provide to you when borrowing money

KNOWLEDGE





What Do These Have In Common?



This is
**NOT. YOUR.
MONEY.**

It is
**OTHER PEOPLE'S
MONEY!**

Credit vs. Debt


Permission to use OPM

OPM used and must be repaid
OTHER PEOPLE'S MONEY!

Types of Credit		
Revolving	Installment	Service
<ul style="list-style-type: none"> • Reusable • Example: credit cards • Payments: flexible, based on balance • Default: purchases denied, fees, penalty interest rate 	<ul style="list-style-type: none"> • Once and done • Example: auto loan • Payments: fixed, based on amount, time, and rate • Default: repossession, wage garnishment 	<ul style="list-style-type: none"> • Month-to-month • Example: cell phone • Payments: based on usage • Default: service shut-off

Types of Debt		
Secured	Unsecured	Garnishments
		

Credit: How to Get It – The 5 C’s



- Capital (cash)
- Capacity (income)
- Character (history)
- Collateral (guarantee)
- Condition



Don't Shop for a Monthly Payment

	Loan Amount	Interest Rate	Term (months)	Monthly Payment	Total Payments	Cost of Credit
Sticker	\$10,000	7%	48	\$239	\$11,472	\$1,472
Factor Change:						
Down Payment \$2,000	\$8,000	7%	48	\$192	\$9,216	\$1,216
Term 60 months	\$10,000	7%	60	\$198	\$11,880	\$1,880
Interest Rate 8.5%	\$10,000	8.5%	48	\$246	\$11,808	\$1,808
Fees \$340	\$10,000	7%	48	\$239	\$11,812	\$1,812

Four Factors of Finance

Factor	Direction	Monthly Payment	Cost of Credit
Down Payment	↑	↓	↓
Term	↑	↓	↑
Interest Rate	↑	↑	↑
Fees	Paid Up Front	No effect	↑
	Rolled into loan	↑	↑↑

Disclosures for Good Decisions

Interest Rate and Charges

- Annual Percentage Rate (APR)
- Purchases
- Balance Transfers
- Penalty and length:
 1. Late payment
 2. Over credit limit
 3. Returned payment
 4. Related accounts
- Due date to avoid interest
- Minimum interest charges

Fees

- Set-up and maintenance
- Transaction
- Penalty
- Balance calculation method
- Conditions of introductory rate

Required Disclosures	Example
Annual Percentage Rate (APR)	\$ 5.99% to 29.99% introductory APR for one year, based on creditworthiness. After that, your APR will be 14.99%. This APR will vary with the market based on the Prime Rate.
APR for Balance Transfers	\$ 5.99% - This APR will vary with the market based on the Prime Rate.
APR for Cash Advances	\$ 19.99% - This APR will vary with the market based on the Prime Rate.
Penalty APR (and when it applies)	\$ 19.99% - This APR may be applied to your account if you: <ol style="list-style-type: none"> 1. Make a late payment. 2. Go over your credit limit. 3. Make a payment that is returned or 4. Do any of the above on another account that you have with us. If your APR is increased for any of these reasons, the Penalty APR will apply until you make consecutive minimum payments, after that, your due date is at least 21 days after the date of each billing cycle. We will not change your APR on a penalty if you are your entire balance for the last 60 days each month.
Minimum Interest Charges	1. If you are charged interest, the charge will be no less than \$1.00.
Setup and Maintenance Fees	None. Some of our set-up and maintenance fees will be assessed if you begin using your card and will reduce the amount of credit you initially have available to you. For example, if you are assigned the maximum credit limit of \$250, your initial available credit will be only about \$200 for about 25% if you choose to have an additional card.
Transaction Fees	None.
Balance Transfer	Either \$5 or 3% of the amount of each transfer, whichever is greater (for a maximum fee of \$45).
Cash Advance	Either \$5 or 3% of the amount of each cash advance, whichever is greater (for a maximum fee of \$45).
Foreign Transaction	3% of each transaction in US dollars.
Monthly Fee	\$20 if balance is less than or equal to \$1,000; \$28 if balance is more than \$1,000.
Over-the-Credit Limit	\$28.
Returned Payment	\$28.
How we calculate your balance	We use a method called "average daily balance (including new purchases)".
Year of introductory APR	We may not apply introductory APR and apply the Penalty APR if you become more than 90 days late 20 consecutive days.
Use of credit card from the National Reserve Bank	To learn more about factors to consider when applying for a credit card, visit the website of the Federal Reserve Bank at www.federalreserve.gov/consumers .

Disclosures for Good Decisions

You, the Buyer and Co-Buyer, if any, may buy the vehicle below for cash or on credit. By signing this contract, you choose to buy the vehicle on credit according to the terms in the agreement. You agree to pay the Creditor - Seller the Amount Financed and Finance Charge according to the payment schedule below. Your finance charge will be figured on a daily basis at a base rate of 7.99% per year. The Truth-in-Lending Disclosures are a part of this contract.

FEDERAL TRUTH-IN-LENDING DISCLOSURES				
ANNUAL PERCENTAGE RATE	FINANCE CHARGE	Amount Financed	Total of Payments	Total Sales Price
8.501%	\$ 1,812.00	\$ 10,000.00	\$ 11,472.00	\$ 9,000.00
				\$340

Number of Payments	Amount of each Payment	Payments are Due	Late Charge
48	\$ 239.00	monthly	You must pay a late charge if a payment or part thereof is more than 10 days late. The charge is 2.5% or 5% of the outstanding balance, whichever is greater.
	\$	Weekly (Beginning Date of Payment)	Prepayment
	\$	1/1/2006	If you pay off early, you will not have to pay a penalty.

Security Interest: You are giving us a security interest in the vehicle being purchased.

Mortgage Loan Disclosures

Loan Estimate		Closing Cost Details	
Loan Estimate	APR: 5.250% Rate: 5.250% Term: 30 Years Monthly Payment: \$1,262.76 Total Payments: \$474,581	Closing Costs	Origination Fee: \$1,000 Disbursement Fee: \$100 Title Insurance: \$1,000 Recording Fee: \$100 Total: \$2,200
Loan Features	Rate: 5.250% Term: 30 Years Monthly Payment: \$1,262.76 Total Payments: \$474,581	Other Costs	Prepaid Interest: \$1,000 Prepaid Taxes: \$100 Prepaid Insurance: \$100 Total: \$1,200
Estimated Payments	Principal: \$1,000 Interest: \$262.76 Total: \$1,262.76	Other Disclosures	Annual Percentage Rate (APR): 5.250% Finance Charge: \$1,812.00 Amount Financed: \$10,000.00 Total of Payments: \$11,472.00

Mortgage Loan Disclosures

Additional Information About This Loan	
Prepayment	You may prepay this loan at any time without penalty.
Late Payment	You must pay a late charge if a payment or part thereof is more than 10 days late. The charge is 2.5% or 5% of the outstanding balance, whichever is greater.
Security Interest	You are giving us a security interest in the vehicle being purchased.

Chat Box

Credit Myth #1
True or False?
I must keep a balance on my credit card to build a credit history.



Chat Box

Credit Myth #2
True or False?
Credit reports are all the same.



Chat Box

Credit Myth #3
True or False?
My employer must have my permission to see my credit report.

Chat Box

Credit Myth #4
True or False?
My credit score will be lower if I view my credit reports.

Credit History – Credit Reports

- Overall snapshot of using OPM
 - Who-lender, a.k.a creditor
 - What-revolving, installment, service
 - Date opened
 - Paid as agreed (or late)
 - Balance
- Compiled information from creditors
- Individual (not joint)
- Changes based on activity-payments (made, late or missed) applications, legal action, etc., typically on a monthly cycle

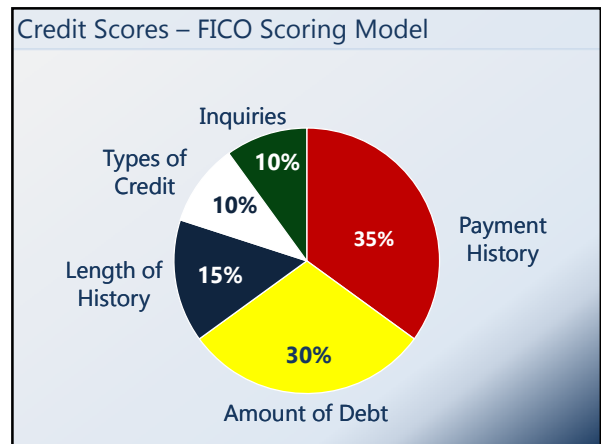
Free Credit Reports – Get Them and Check Them

Online : www.annualcreditreport.com (the one and only free site!!!)*
Telephone: 877-322-8228
Mail: Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

Note: Free credit reports do **not contain your credit score.*

Credit Scores – What's Your Number?

- A number which represents how likely a person is to repay a loan
- It is calculated by a complicated statistical program using the information contained in your credit report
- There are a variety of scoring models used for different lending purposes (auto loans, mortgages, credit cards, etc.)



The Cost of Poor Credit!

Credit cost for Pennsylvania consumers borrowing \$10,000 for a 48-month used auto loan*

FICO Score	APR	Monthly Payment	Total Interest Paid
720-850	4.428%	\$228	\$ 944
690-719	6.598%	\$233	\$ 1,184
660-689	7.300%	\$241	\$1,568
620-659	11.425%	\$261	\$2,528
590-619	19.260%	\$300	\$4,400

*Source: myfico.com for rates quoted 4/21/22

Credit is expensive!
Does my credit history matter if I decide to only use cash for purchases?



Why Does Credit History Matter?



Credit – How to Use It



Know When to Say "When"



Debt-to-Income Ratio

- How much of your income goes towards debt?
- Guidelines –
 - less than 10% for consumer debt (auto/student/ personal loans, credit cards, etc.)
 - less than 28% for housing debt (with taxes and insurance)

$$(\text{Monthly debt payments} \div \text{Gross monthly income}) \times 100$$

Know When to Say "When"



Utilization Ratio

- How much of your available credit are you using?
- Guidelines-
 - Less than 30% for each revolving account
 - 100% is not a good score!

$$(\text{Debt balance} \div \text{Credit limit}) \times 100$$

Warning Signs



- Ratios too high
- Can't make minimum payments
- Using one credit account to pay on other credit account
- Calls from creditors
- Collection agencies

Credit: How to Fix It



1. On Your Own
2. Credit Counseling
3. Debt Management Program
4. Debt Settlement
5. Bankruptcy

Credit: How to Fix It

On Your Own

- Establish manageable money map
- Dissect your debt for payment strategies
- Contact creditors and ask for reduced interest rates, payments, or refinance options
- Make good on your promises and make payments ON TIME!

Pros

- You take control
- Saves money in additional late fees and/or penalties
- Re-establishes good payment history

Cons

- Takes time to pay off debts
- May still have to manage multiple accounts and payments

Credit: How to Fix It

Credit Counseling

- Evaluate credit report and debt
- Establish a manageable money map
- Suggest repayment strategies
- Helps contact creditors and ask for reduced interest rate, payments or refinance options

Pros

- Professional analysis of your situation
- Saves money in additional late fees and/or penalties
- Re-establishes good payment history

Cons

- Takes time to pay off debts
- May still have to manage multiple accounts and payments

Rebuilding Credit with Help

Debt Management Program (DMP)

- Credit counseling
- Contact creditors and negotiates a lower interest and manageable repayment plan
- One monthly payment to provider
- Monthly disbursements to creditors

Pros

- Professional analysis of your situation
- Saves money in additional late fees and/or penalties
- Re-establishes good payment history
- Write one check per month

Cons

- Will take time to pay off debts (2-5 years)
- May not qualify for credit until program completed
- Monthly fee

Rebuilding Credit with Help

Debt Settlement

- Credit counseling
- Accounts must be in *collection*; if not, you will be advised to stop making payments
- Make deposits into separate savings account for future settlement
- Contact creditors and negotiates a settlement payment for less than owed
- Disburse settlement payment to creditors

Pros

Pay less than owed

Cons

- High fees
- May have to claim forgiven debt as income on your taxes (1099-C)
- Creditors may still try to collect on accounts
- Immediate damage to credit if had been making on-time payments to creditors before

Rebuilding Credit with Help

Bankruptcy

- Must attend pre-bankruptcy counseling before filing
- File a "means" test for payment plan (Chapter 13)
- Notification to creditors
- Debtor education
- Discharge approval or denied

Pros

- Some or all of debt forgiven
- Maybe faster than repayment plan
- Generally, not taxable (note: there are exceptions)

Cons

- Not all debt forgiven (alimony, child support, taxes, federal student loans, etc.)
- Will affect qualification for new credit (usually 2+ years)
- May be reported for 10 years

Too Good to Be True?



- 3 lbs ground beef
- 100 hamburger buns
- 2 cases of lettuce
- a dozen tomatoes
- Vegetable oil
- brown food coloring
- tweezers
- Superglue
- paintbrush
- waterproof spray
- glycerin and water

Predatory Lending

Source: PBSKids.org

Signs of Predatory Lending

We finance everyone!

High-pressure sales

Signing documents on hood of car

Fudge your income

Just a bad feeling

Sign a blank form

Changing terms at closing

Don't worry. We'll take care of everything.

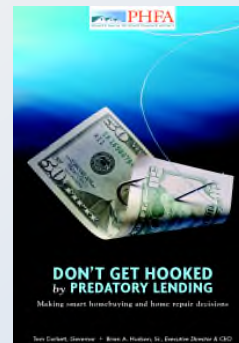
No proof of income

No credit? No problem!

No Truth-in-Lending Disclosure

Offers more than you need!

High APR's



Today's Recap

- Types of Credit
- Getting and Using Credit
- Credit Reports and Scores
- Dissecting Your Debt
- Avoiding Predatory Lending

ACTION

- Plan and meet obligations
- Limit borrowing to reasonable and manageable levels
- Limit borrowing to pay for items that will improve your financial picture
- Avoid high-cost borrowing; plan, understand, and shop around for best terms
- Order free credit reports every 12 months from each bureau and review for errors and potential problems

