A woman with curly hair, wearing a dark blazer and a red bag, is smiling and looking down at a document. A man in a suit and tie is standing next to her, also looking at the document. They are in the back of a car. The car's interior, including the seats and door panel, is visible. The license plate number '23367' is visible on the window. The background is a bright, hazy outdoor scene.

Unit 7:  
**Borrowing Money**  
**Personal Financial Literacy**

# Objectives

- Identify ways to establish a good credit record.
- Discuss the importance of reviewing credit reports.
- Determine how and where to get accurate credit scores.
- Formulate options for financing a vehicle.
- Discuss factors that influence the vehicle you lease or purchase.

# Objectives - Continued

- List the advantages and disadvantages of leasing an automobile.

# Credit

- Supply of money, goods, or services in present time in exchange for promise of future payment
- Good way to obtain things you want and need
- Can lead to financial problems

# What's on a Loan Application?

- Asks for:
  - place of employment
  - length of employment
  - how much you earn
  - assets
  - how long you have lived at your residence
  - what you are paying for housing
  - financial accounts and credit references



# Credit Record

- Borrowing and repayment history
- How much you owe creditors
- History of late payments
- Can start as early as age 16
- On record up to 7 years (longer, if you've declared bankruptcy)
- Sources of income

# Credit Record

- Type of house you live in
- Any legal judgments
- Are NOT allowed to reveal:
  - Gender
  - Religion
  - Race
  - Age
  - Country of origin

# How to Establish Credit

- Pay utility bills on time
- Have savings and checking account
- Make deposits and don't be overdrawn
- Apply for credit card
- Make credit card purchases and pay them off





# Managing Credit Record

- Pay bills before they are due
- Make more than minimum payment
- Keep balances low
- Don't overuse or apply for too many credit cards
- Make regular deposits to savings accounts

# Credit Reports

- FICO, Equifax, Experian, TransUnion
- Review annually
- Free report from each credit bureau each year
  - does not include a credit score though

# The Four Cs

- Character – Your reputation as a borrower. How responsible have you been? Have you had late payments or delinquent accounts?
- Capacity – A borrower's ability to pay back his/her loan. May compare debt to income and debt that you take on and pay off regularly.
- Capital – What you own such as machinery and equipment or cash.
- Collateral – Assets that a lender can take possession of if a borrower defaults on his/her loan.

# FICO

- Type of credit score created by Fair Isaac Corporation
- Based on:
  - Credit history (35% of score)
  - Current level of debt (30%)
  - Length of time using credit (15%)
  - Applying for new credit (10%)
  - Type of credit used (10%)

# FICO

- Scores range from 300 to 850
- Determines whether you qualify for loan and the interest rate

# Where to Borrow



- Consumer finance companies
- Financial institutions
- Insurance companies
- Loan sharks
- Pawnbrokers
- Payday loans
- Private loans

# Vehicle Loans

Consider:

- Interest rate
- Monthly payments
- Length of the loan
- Down payment or trade-in
- Balloon payment clause or acceleration clause



# Researching Car Purchase

- Consumer Reports
- Car and Driver
- [www.edmunds.com](http://www.edmunds.com)
- [www.kbb.com](http://www.kbb.com)
- Carfax



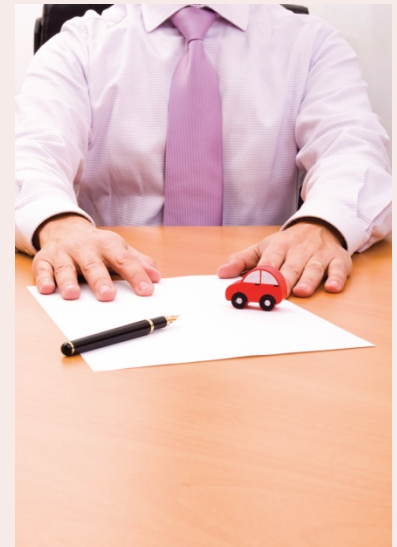
# Depreciation

- New car loses 20% of its value immediately.
- Most of a car's depreciation occurs in the first two years.



# Leasing Advantages

- Lower monthly payments
- Can drive a more expensive car
- Drive a new car every 2 to 3 years (tends to be more reliable)



# Leasing Disadvantages

- Mileage limit
- More expensive
- Fines for dings or dents
- Never actually own the car

# Unit Review

1. Discuss what credit is, its benefits, and potential problems.
2. How does a person begin establishing a credit record?
3. Describe what can be done to establish a good credit record.
4. Name the three major credit bureaus.

# Unit Review - Continued

5. Why is it important to review copies of your credit record, and is there anything that can be done if a credit report has erroneous information?
6. Describe the relationship of credit bureaus with lenders and creditors.
7. Describe the four C' s of credit.

# Unit Review - Continued

8. What is the most commonly used credit score, and how is it compiled?
9. Explain the relationship of FICO scores and interest rates.
10. Describe a typical vehicle loan.
11. Compare and contrast the various sources of loans.

# Unit Review - Continued

12. Discuss the factors that should be considered when shopping for a vehicle loan.
13. Where can you find impartial information about makes and models of vehicles?
14. Discuss information that can be researched when shopping for a car.
15. How are new vehicles affected by depreciation?

# Unit Review - Continued

16. How do used vehicles affect depreciation and what are other considerations when purchasing a used vehicle?
17. Discuss the advantages and disadvantages of leasing a vehicle.



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