

## FINANCE - MODULE 22 TYPES OF CREDIT Name \_\_\_\_\_

1. Identify the characteristics of each of the following type of credit

|   | The average annual interest rate  | Describe situations when one might use various credit products   |
|---|---|--|
| credit cards- REVOLVING   | 19% (15-30%)- Interest FREE if paid in 21 days (grace period)                     | Online shopping, short term cash needs, emergencies, build good credit   |
| lines of credit- GIVEN amount of credit (with a set limit) REVOLVING                  | 3-5% (no set repayment)   | Unexpected expenses, emergencies (managing your own borrowing) non-card credit card  |
| personal loans- secured & unsecured CAR LOAN - INSTALLMENT (set amount & pay to zero) | 5-15%   | Medical bills, personal needs, house maintenance, consolidation (payout credit cards)  |
| student loans- government (portions are forgivable)                                   | INTEREST FREE WHILE IN SCHOOL UP TO 6 MOS AFTER GRADUATION Prime + 2 to 5% (6-8%) | Finance post-secondary, prove enrollment; no pmt/no int until done school; based on family need  |
| student lines of credit- bank provide; parent likely needs to cosignor                | INTEREST CHARGED WHILE IN SCHOOL; int rate dependent on cosignor                  | Don't qualify for government student loans, no savings   |
| Mortgages (need 5% of purchase price down)  | 1.84-5%   | Home ownership, investment property, land  |
| home equity lines of credit (HELOC)   | 2.95-3.95%  | Borrow money, up your credit limit (backed by your main residence) up to 80% of your homes value   |
| payday loans worst (\$7.2BILLION INDUSTRY) (prey on people without 3 C's of credit)   | Fees which amount to \$15-20/\$100 loan = 391-521% per year                       | Never a good idea- used to advance before paycheck; emergencies, reg expense   |
| Leases (tax deductions for businesses)  | 6-9% (over longer period of time to "keep payments low" in the end more expensive | To "rent" equipment to keep lines of credit for emergencies to help maintain cash flow (finance a purchase instead of using cash; Tax deductible |



use in Japan

- not every culture believes in debt or accumulation of wealth
- sharing culture instead of debt or huge investments

c. community influencers

- Celebrities might advertise products/ loans which influences how their supporters & followers see those products
- some influencers and celebrities take on tons of debt/ spend beyond their means
- facade of false wealth

d. personal experiences

- The way you have dealt with credit in life (good or bad) will impact how you take on debt
- Bad experiences- might be afraid to take on debt / live with less; take a long time to recover from (bankruptcy will impair ability to live & grow for a long time)
- Good experiences- received of what debt can provide (home, schooling, travel opportunities)