Understanding Credit

Wave of the Future

SAN DIEGO FINANCIAL LITERACY CENTER
Enhancing Your Financial IQ
Types of Credit

**Revolving Credit:** credit cards

**Installment Credit:** cars, personal, student

**Mortgage:** home, land

**Service Credit:** utilities, internet, phone
4 C’s of Credit

**Character**: Risk Personality
**Capacity**: Ability to repay
**Collateral**: What if you can’t repay?
**Conditions**: Market influences as well as personal habits
Cost of Credit Cards

Credit card companies make billions!

How?
• Interest
• Late fees
• Over limit fees
• Annual/membership fees
• Cash advancement fees
• Transaction fees
‘FUN’ financing?

What if you only paid the minimum?
→ $5000 home entertainment system
→ Name Brand Credit Card (24% APR)
→ Monthly Charge = 1% of balance + finance charges

How long would it take to pay off and what would the total be?
Total Cost on Credit

It will take a whopping 21 Years and 4 Months!
$9,090 in interest alone! A grand total of $14,090!
Pros of Credit

→ Source of funds in an emergency
→ Cash back / rewards programs
→ Can help build your credit history
→ Security from theft
→ Convenience
Cons of Credit

→ Inability to pay will result in a poor credit history / score
→ Costs / fees
  → Potential for overspending
→ Terms of the contracts
→ Target for scams and fraud
Big 3 Credit Bureaus

1. Experian, 2. Equifax, and 3. Transunion
You can get 1 free credit report per year from

AnnualCreditReport.com

Sites such as FreeCreditScore.com are NOT free!
Credit Report

Your credit report has:

→ **Identifying information**: name, address, SSN

→ **Public records & collections**: bankruptcies, tax liens, foreclosures, wage garnishments, lawsuits, judgements

→ **Credit accounts**: “trade lines,” sources of credit

→ **Requests for report** “inquiries”: hard and soft inquiries
FICO® Score

5 Weighted Factors:
→ 35% Payment History
→ 30% Debt-to-Credit Ratio
→ 15% Length of Credit History
→ 10% Types of Credit
→ 10% Credit Inquiries
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Present

Talk Wealth To Me

The safe-space podcast
where we chat about
anything and everything related to
personal finance.

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Questions?
Thank You!

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