

**BANKING**

**&**

**CREDIT**

# THE **1** SECRET THAT WILL CHANGE YOUR LIFE



**PAY**

**YOURSELF FIRST**



**HOW  
INTEREST  
HELPS YOUR  
MONEY  
GROW**



**EARNED  
INTEREST**

**IT'S MONEY – PAID TO YOU  
BY AN FI FOR KEEPING YOURMONEY THERE**

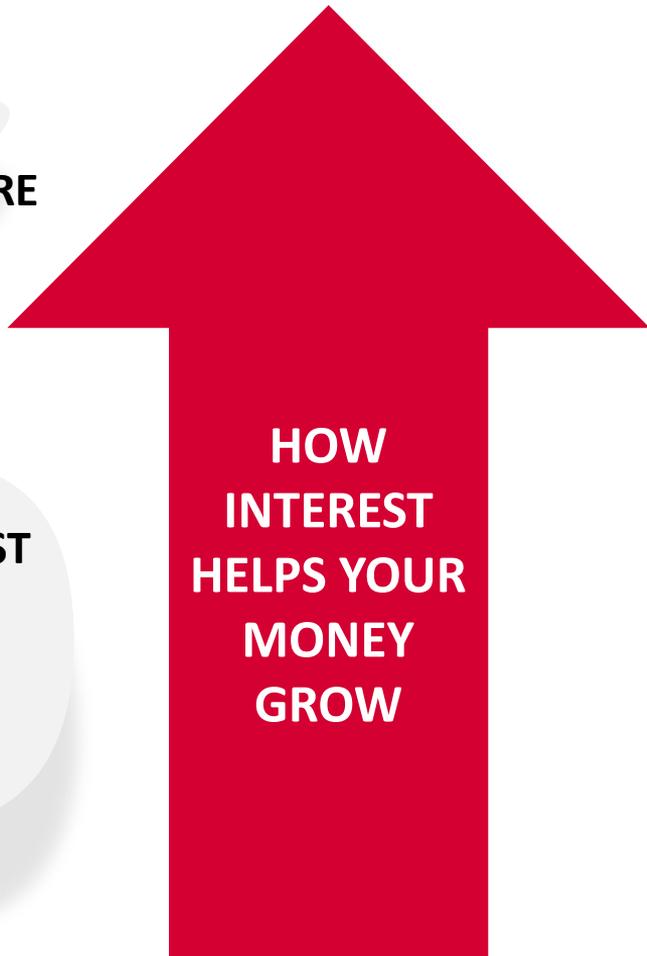
**IT'S PAID AT REGULAR INTERVALS  
AT A STATED INTEREST RATE**



**ANNUAL  
PERCENTAGE  
YIELD**

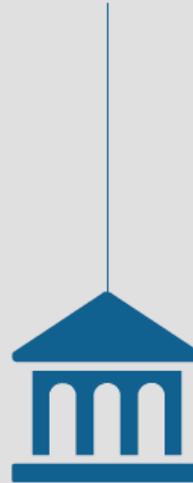
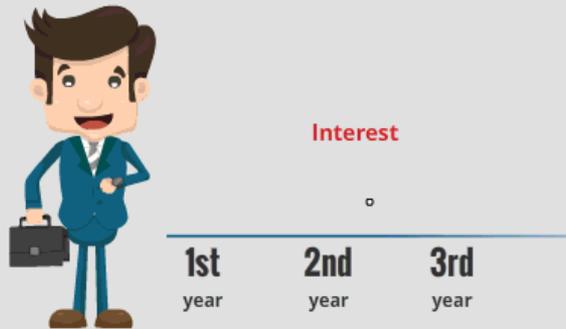
**IT'S A STATED RATE TO COMPARE INTEREST  
RATES ON ACCOUNTS AT VARIOUS Fis**

**THE APY TAKES INTO ACCOUNT  
COMPOUND VS. SIMPLE INTEREST**



**HOW  
INTEREST  
HELPS YOUR  
MONEY  
GROW**

## SIMPLE INTEREST



## COMPOUND INTEREST



# S SAVINGS ACCOUNTS

## REGULAR SAVINGS ACCOUNT

UNLIMITED DEPOSITS  
WITHDRAWALS MAY BE LIMITED  
EARNS INTEREST

## MONEY MARKET ACCOUNT

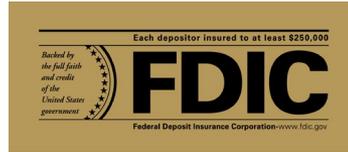
UNLIMITED DEPOSITS  
USUALLY HIGHER INTEREST RATE  
MAY LIMIT WITHDRAWALS

## CERTIFICATE OF DEPOSIT (CD)

USUALLY THE BEST RATES  
MONEY TIED UP FOR TERM  
FEE FOR TAKING MONEY BEFORE TERM IS UP

# PROTECTING YOUR SAVINGS

## DEPOSIT INSURANCE



## ADDITIONAL DEPOSIT INSURANCE (MASSACHUSETTS)



# **F**INANCIAL INSTITUTIONS



## **BANKS**

**TRADITIONAL FINANCIAL INSTITUTIONS  
DEPOSITOR OWNED OR SHAREHOLDER  
OWNED  
TRADITIONAL BANKING SERVICES**

## **CREDIT UNIONS**

**NOT FOR PROFIT  
OWNED BY MEMBERS  
OFFER MANY TRADITIONAL BANKING  
SERVICES**



# CHECKING ACCOUNTS

**TRANSACTION ACCOUNTS**

**PAY BILLS**

**BUY THINGS**

**WRITE CHECKS**

**USE DEBIT CARD**



# SAVINGS ACCOUNTS

**LET YOUR MONEY GROW  
KEEP YOUR MONEY SAFE  
EARN INTEREST OVER TIME**

# CREDIT ADVANTAGES

**USE TO BUY NEEDED ITEMS NOW**  
**HELPFUL IN EMERGENCY SITUATIONS**  
**HELP DEVELOP GOOD CREDIT SCORE**  
**SOME CREDIT CARDS OFFER BENEFITS**



**CREDIT  
DISADVANTAGES**

**POTENTIAL FOR MISUSE**  
**NEGATIVE IMPACT ON CREDIT SCORE**  
**HIGH INTEREST RATES**  
**INCREASED DEBT  
FEES**



# Credit

- Advantages

- Use to buy needed items now
- Helpful in emergency situations
- Help develop a good credit score (if used responsibly)
- Some card issuers offer benefits
  - Purchase or price protection
  - Trip or rental car insurance



- Disadvantages

- Potential for misuse - Can be a budget buster
- High interest rates (on some credit)
- Increased debt
- Fees



# The 3 C's of Credit

- Character
  - Manage debt well
    - Have had debt before
    - Pay bills on-time
  - Have references (people willing to vouch for you)
  - Longevity
    - At residence
    - With employer
- Capital
  - Have assets for potential collateral
    - Real estate or other property
    - Investments and/or savings
- Capacity
  - Have enough income to afford payment amount
  - Other debt and expenses are not excessive

# The Responsibility of Debt

- Only borrow what you can repay
- Understand the credit contract
- Pay on-time
- Notify your creditor if your situation changes and you cannot pay on-time
- Report lost or stolen cards immediately
- Don't share your personal information unless you know the purpose is legitimate
  - Card or account numbers
  - Identification numbers

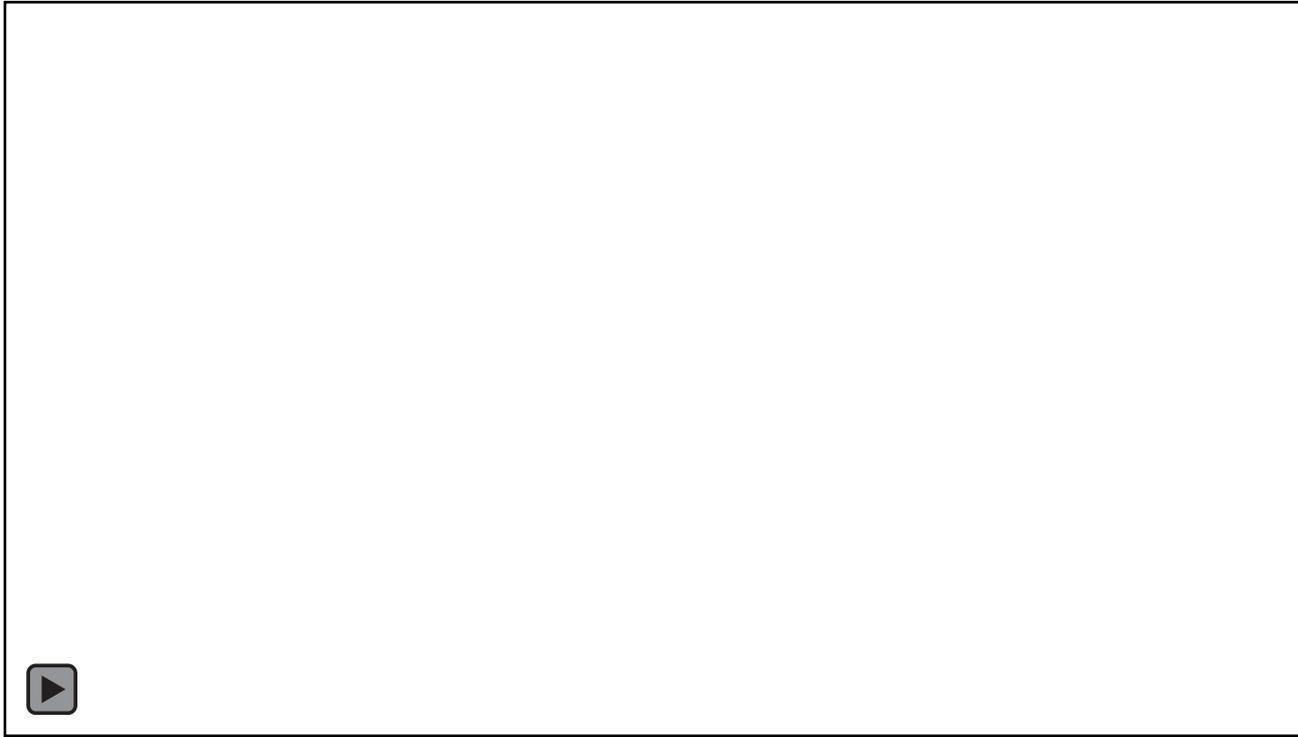
# Beware the Debt Monster



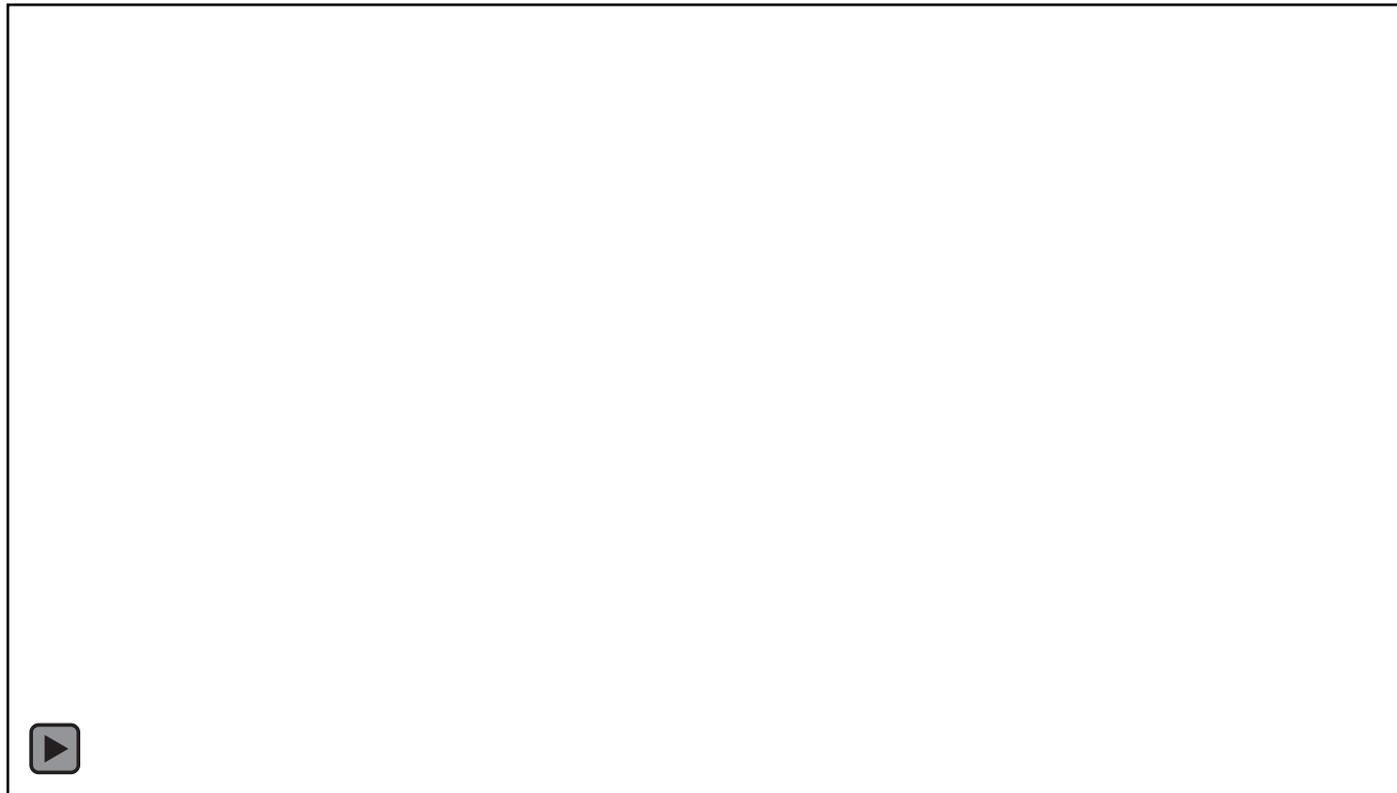
# Your Consumer Rights

- **Truth-In-Lending Act of 1968**
  - Ensures consumers are fully informed about the costs and conditions of borrowing
- **Fair Credit Reporting Act of 1970**
  - Protects privacy and accuracy of credit reports
- **Equal Credit Opportunity Act of 1974**
  - Prohibits discrimination in obtaining credit on the basis of sex, race, color, religion, national origin, marital status, age or receipt of public assistance
- **Fair Credit Billing Act of 1974**
  - Established a procedure for the quick correction of mistakes that appear on consumer credit accounts
- **Fair Debt Collection Practices Act of 1977**
  - Prevents abuse by professional debt collectors; applies to anyone employed to collect debts owed to others; does not apply to banks or others collecting their own accounts

# Building a Credit History



# What is a Credit Report?



# Payment Codes on Credit Reports

CREDIT ACCOUNT INFORMATION											
COMPANY NAME	ACCOUNT NUMBER	WHOSE ACCT.	DATE OPENED	MONTHS REVIEWED	DATE OF LAST ACTIVITY	HIGH CREDIT	TERMS	ITEMS AS OF DATE REPORTED			
								BALANCE	PAST DUE	STATUS	DATE REPORTED
Department St. Bank	32514	J	10/86	36	9/97	\$950	X	\$0	X	R1	10/97
Oil Company	1004735	A	11/86	24	5/97	\$750	X	\$0	X	I1	4/97
Auto Finance	541125	A	6/86	12	3/97	\$500	X	\$0	X	O1	4/97
	529778	I	5/85	48	12/96	\$1100	\$50	\$300	\$200	I5	4/97

**Previous Payment History:** 3 Times 30 days late; 4 Times 60 days late; 2 Times 90+ days late  
**Previous Status:** 01/97 - I2; 02/97 - I3; 03/97 - I4

O = Open

R = Revolving  
Like a Credit Card or  
Line of Credit

I = Installment  
A Term Loan with a  
Fixed Monthly Payment

0 = Not used  
Or too new to rate

1 = Paid as Agreed  
No late payments

2 = Past Due 30 days

3 = Past due 60 or 90 days

5 = Past due by 120 days or more  
Or account now in collection

6 = Making payments under a Payment Agreement

7 = Repossession  
Like an auto repossession

8 = Account Charged-off

# Types of Credit

- Single Payment Charge

- Charges are paid in-full each billing cycle. Payments are not spread over time. Interest is not generally charged (but can be)
  - American Express
  - Utilities, medical services
  - Some retail businesses



- Revolving Credit

- Goods and services can be paid using revolving credit, such as credit cards, as long as the amount does not exceed the credit limit. Repayment is made at regular intervals and includes interest and a portion of the principal. Interest is charged.
  - MasterCard, Visa, Discover
  - Retail credit cards
  - Financial institutions



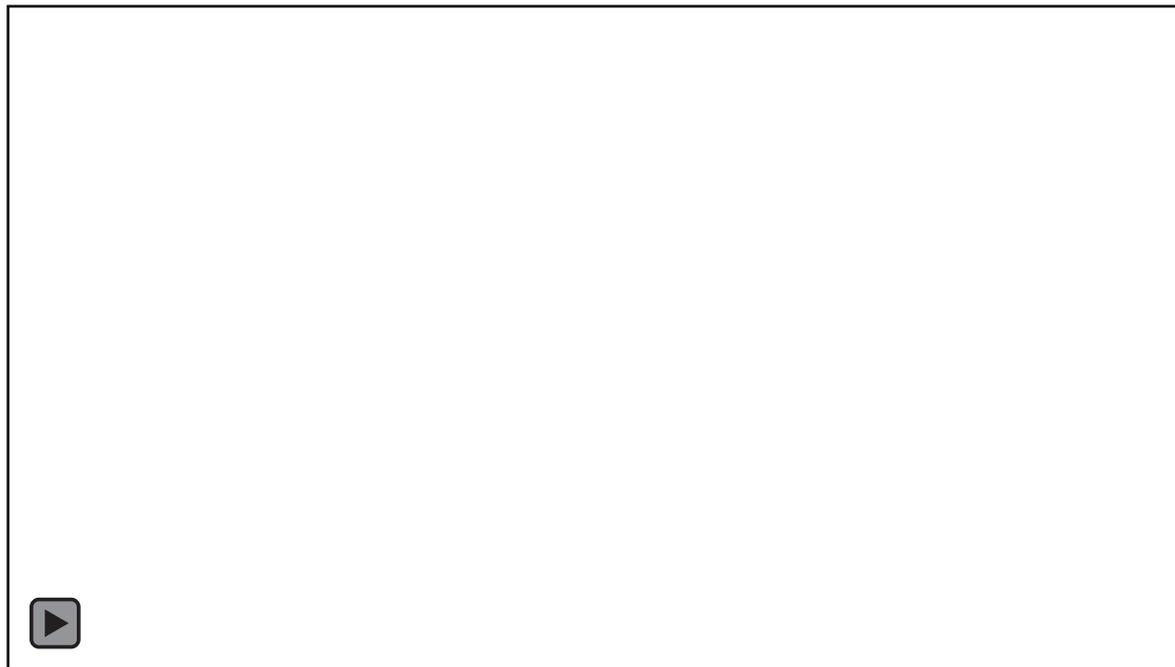
# Types of Credit

- **Installment Loans**
  - Fixed loan amounts, with fixed regular payments. The interest rate is usually fixed for the term of the loan
    - Automobile loans
    - Furniture stores
    - Boat and motorcycle loans
    - Personal loans
    - Finance companies
- **Discussion**
  - What are some things you might agree to pay for using an installment loan?
  - Why would you consider a loan rather than paying in-full at the time of purchase?
  - What things should you pay attention to when getting an installment loan?

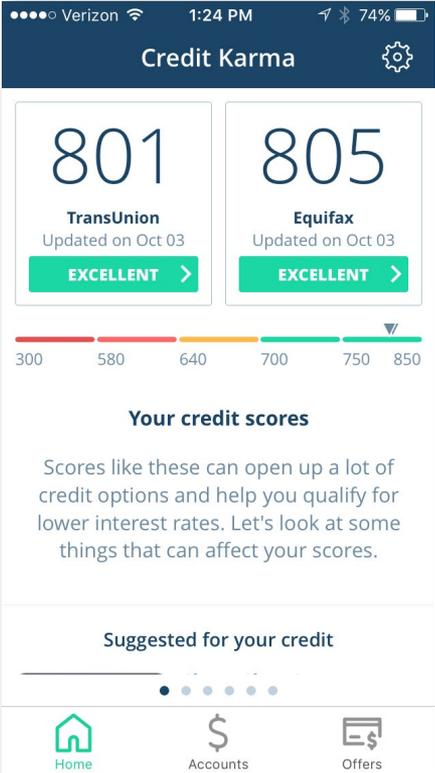
# How Much Can You Afford? (The 20/10 Rule)

- Never borrow a total of more than **20%** of your annual net income
  - For example:
    - If you earn \$400/month after taxes and other deductions, your annual net income is  $\$400 \times 12 \text{ months} = \$4,800$
    - $\$4,800 \times 20\% = \$960$
    - In this example the safe amount of debt is \$960
- NOTE: Housing, utilities, food, etc. are not part of debt for this calculation
- Monthly payments should not exceed **10%** of your monthly net income
  - For example:
    - If your monthly income after taxes is \$400, your debt payment should be  $\$400 \times 10\% = \$40$
    - The safe debt payment is no more than \$40/month

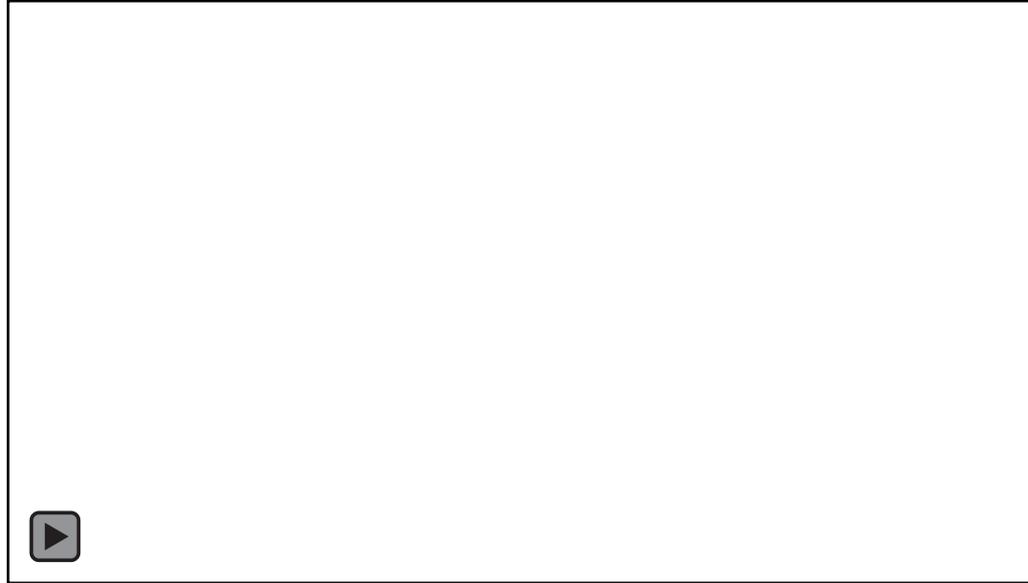
# What is a Credit Score?



# What is Your Credit Score?



# Why Is Your Credit Score Important?



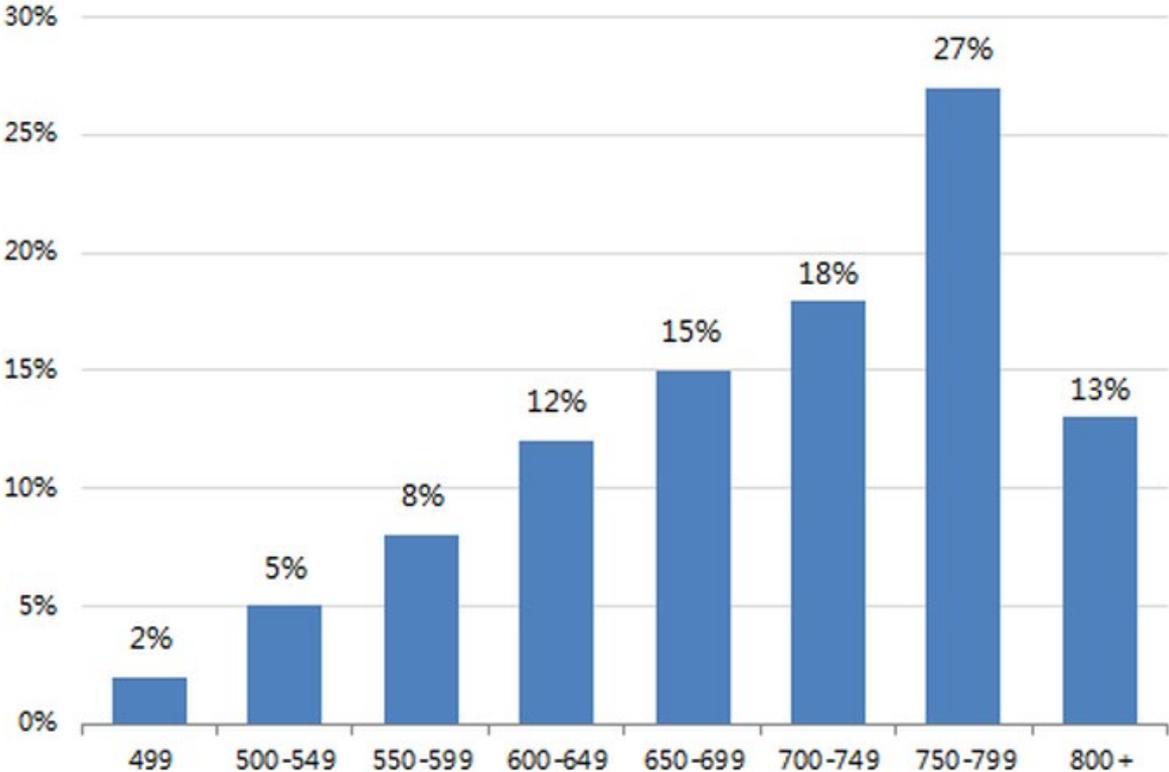
# Credit Score Values

- **800 or higher**
  - Well above the average score
  - Usually an easy loan approval process
  - Only 1% of these borrowers are likely to become seriously past due
- **740-799**
  - Very good score
  - Borrowers may qualify for lower interest rates
  - About 2% of these borrowers are likely to become seriously past due
- **670-739**
  - Good score
  - Lenders consider this score “acceptable”
  - Around 8% of these borrowers are likely to become seriously delinquent

# Credit Score Values

- **580-669**
  - This score is below average
  - These borrowers are considered “sub-prime”
  - About 28% of these borrowers are likely to become seriously past due
- **579 or lower**
  - Very low score
  - Likely to have prior past due accounts or bankruptcy
  - Around 61% of these borrowers will likely become seriously delinquent

# National Distribution of FICO Scores



Thank you