

Casa Youth Shelter

Life Skills

Understanding Debt





Understanding Debt

Standard

- Demonstrate a general understanding of debt and how to avoid it.

Objectives

- Understand and define debt
- Demonstrate a general understanding of terminology related to debt.
- Understand the different types of debt.
- Understand how to appropriately use a credit card and learn about the importance of a credit report.



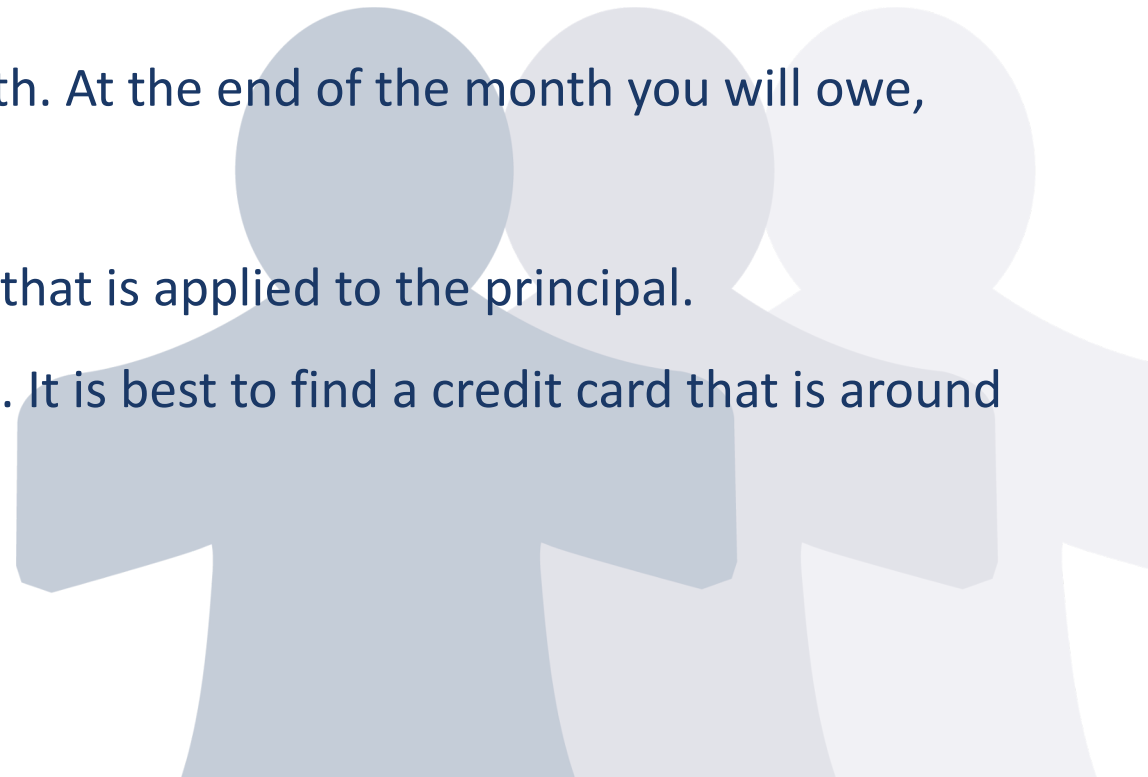


Debt Terminology

- **Debt:** money that is owed or due
- **Principal:** the amount that you borrow
- **Interest:** a fee that is added onto the principal

Example: You owe \$100.00 and interest is 10% a month. At the end of the month you will owe, \$110.00

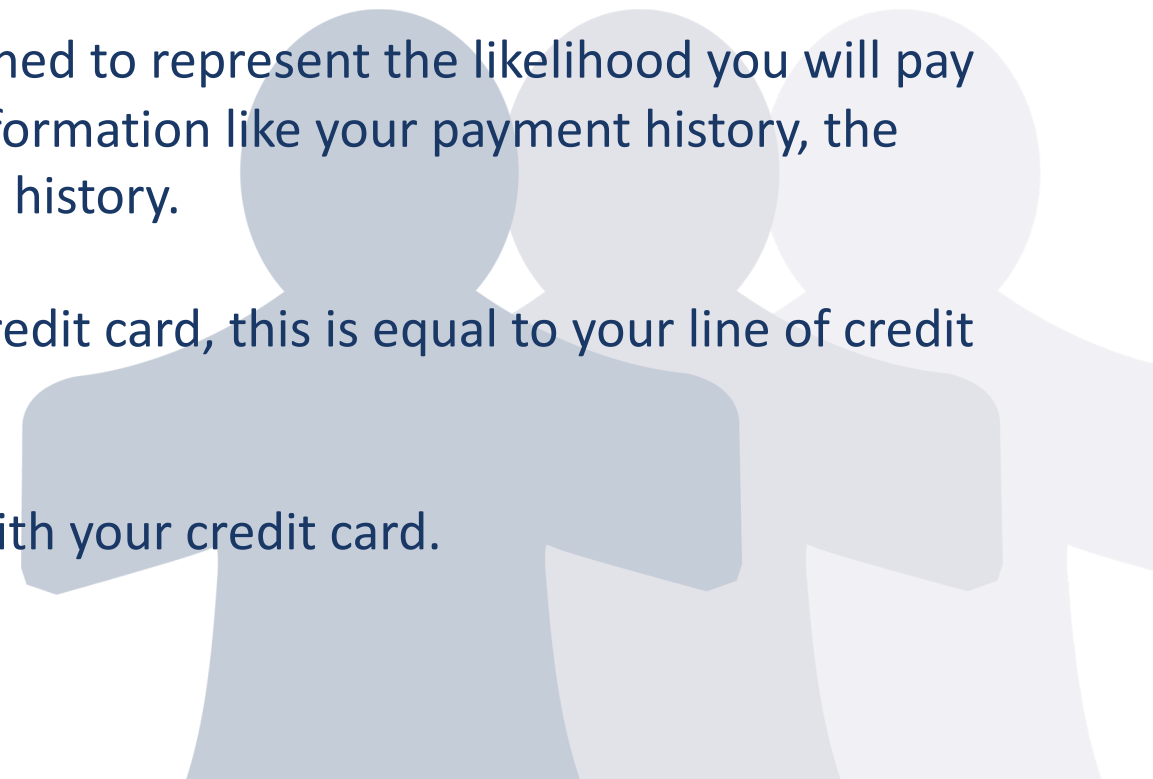
- **Annual Percentage Rate (APR):** the amount of interest that is applied to the principal.
 - When selecting a credit card be mindful of the APR. It is best to find a credit card that is around or below the national average, which is about 16%





Credit Terminology

- **Creditworthiness:** the likelihood that you will pay back your debt. This is based on your past payment history and credit score.
- **Credit Score:** a rating typically between 300-850, designed to represent the likelihood you will pay your bills on time. Credit scores are calculated using information like your payment history, the amount of debt you have, and the length of your credit history.
- **Available credit:** how much you can spend with your credit card, this is equal to your line of credit minus balance and pending transaction.
- **Line of credit:** the maximum amount you can charge with your credit card.





Types of Debt

- **Loan:** a sum of money that is borrowed and expected to be paid back with interest.
- **Credit Card:** a card that is issued by a bank, business, or credit lender to an individual that allows a person to buy things based on credit.
- **Auto Loan:** allows someone to borrow money in order to purchase a vehicle. This loan is meant to be paid back over the span of three to seven years.
- **Tuition Loan:** allows someone to borrow money in order to pay for post secondary school. Payment on this loan usually begins once the individual graduates from the school.
- **Mortgage Loan:** a loan used to purchase or maintain a home or other types of real estate.



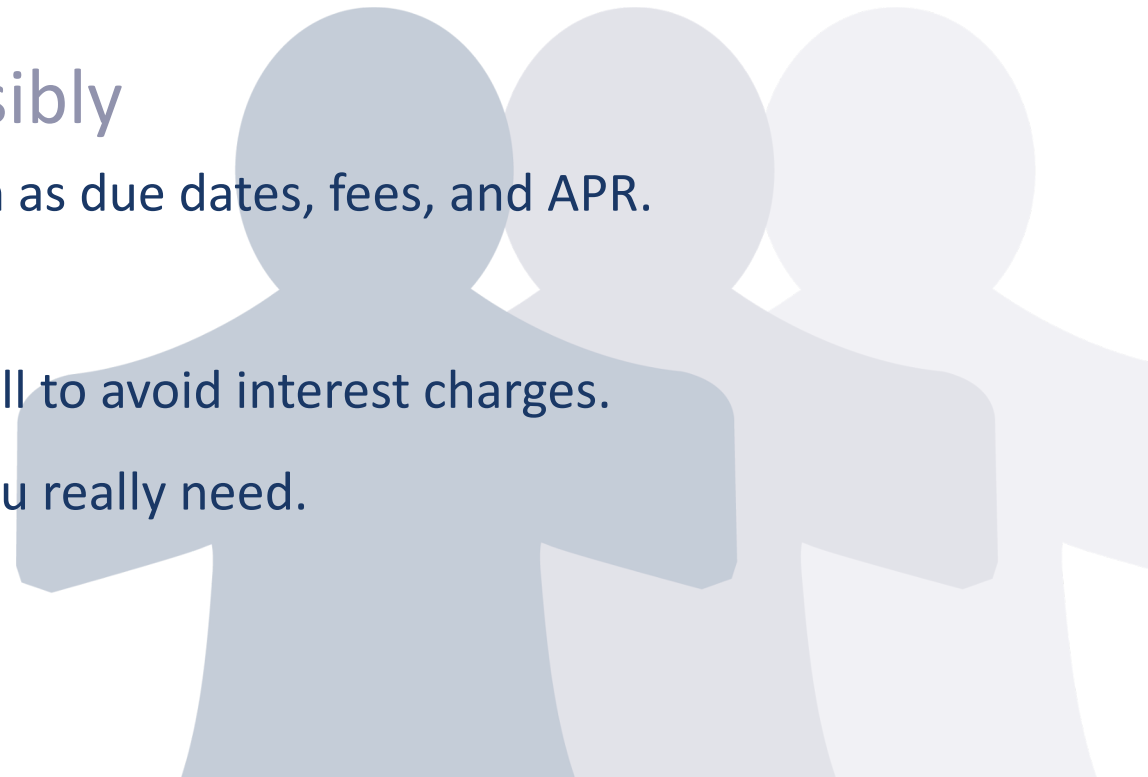
Importance of a Credit Card

Why is a credit card important?

- To build creditworthiness and have the ability to purchase a car, afford post-secondary options, and a buy a home.

Tips on how to use a credit card responsibly

- Read your card agreement and know your terms, such as due dates, fees, and APR.
- Make payments on time, every time.
- Pay more than the minimum or pay your balance in full to avoid interest charges.
- Stay below your credit limit and only use the credit you really need.



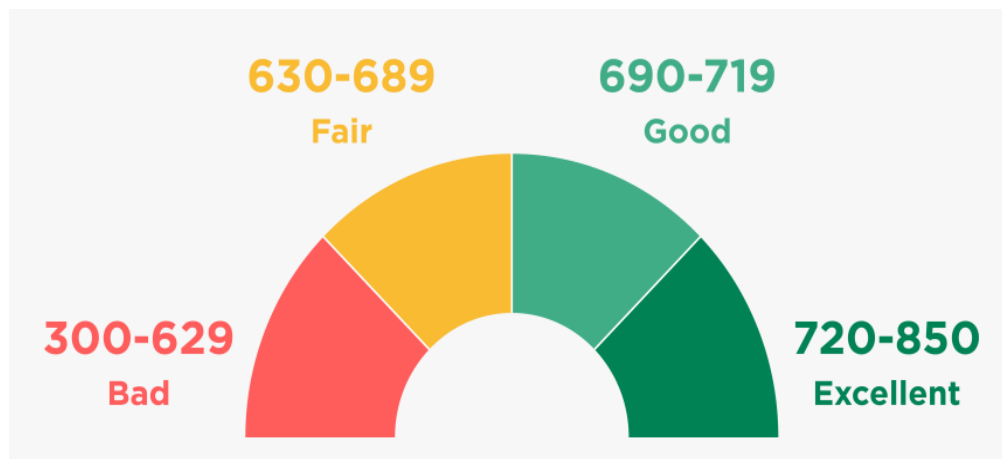


Credit Report and Score

A credit report is a detailed summary of your credit history

- Potential creditors and lenders use credit reports as part of their decision-making process to decide whether to extend you credit.
- Your credit reports may also be reviewed for insurance purposes or if you are applying for services such as phone, utilities or a mobile phone contract.

Below is the credit score range:



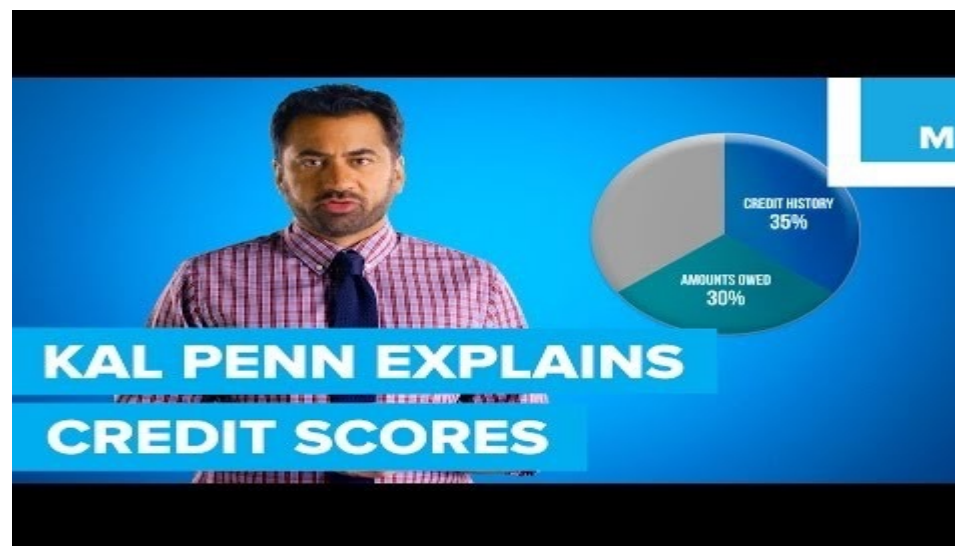


How to Choose a Credit Card





What is Debt and Credit Scores?





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