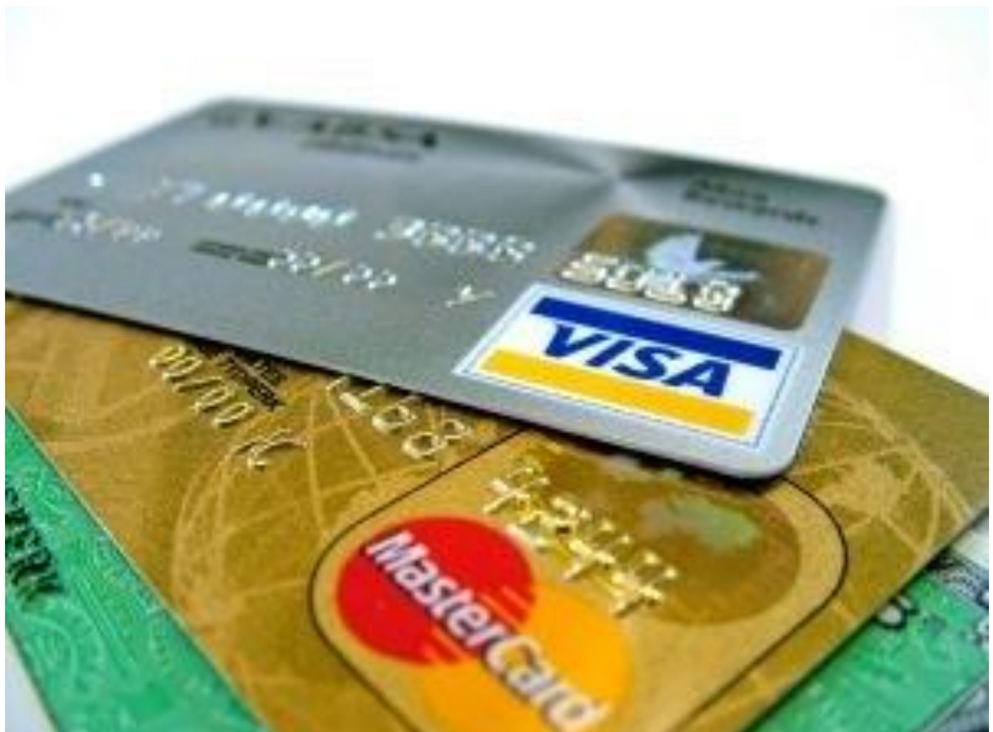
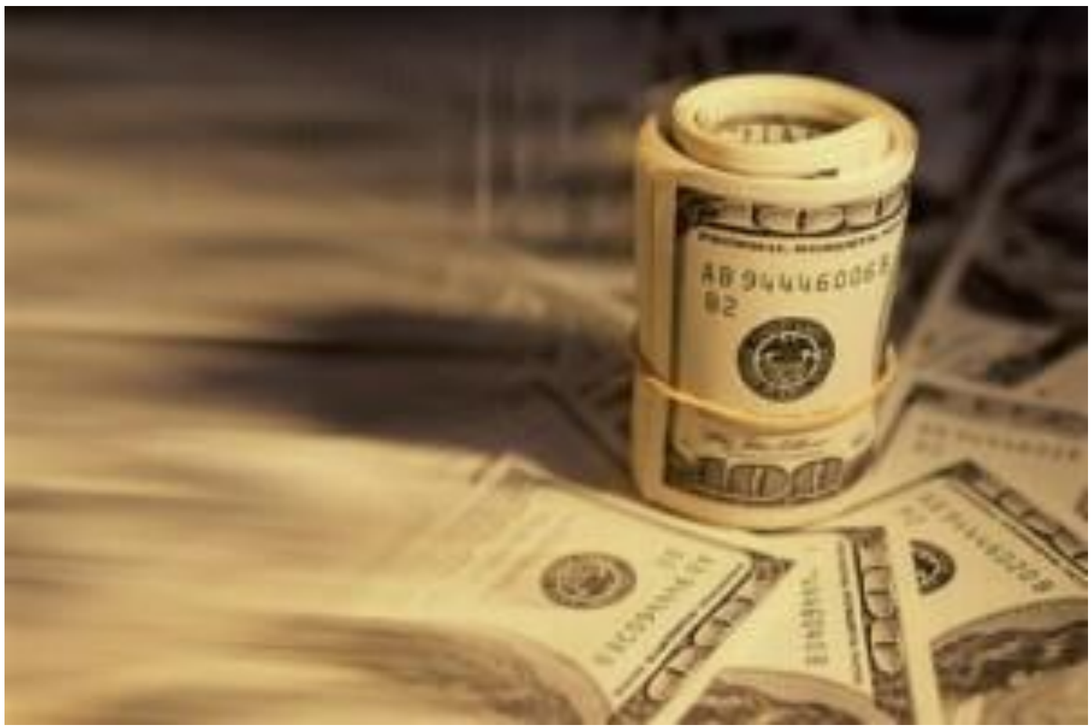
Chapter 7-2 & 7-3 Notes



Chapter 7-2: Sources and Benefits of Credit

1) Sources of Credit



a) Credit is the ability to borrow money with the agreement to pay it back later.

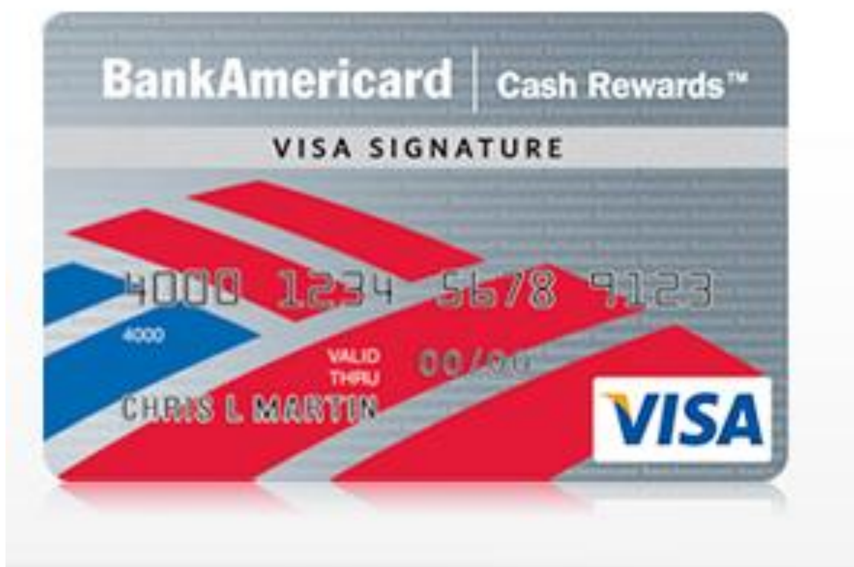
b) When completing a credit application, give COMPLETE and HONEST responses.

c) Service Credit – the ability to receive services and pay for them later.

   i) Examples: Utilities, doctors, dentists

d) Bank Credit Cards – the account holder can charge to the account as often as desired up to a certain dollar limit (revolving credit).

   i) Examples: Visa, MasterCard



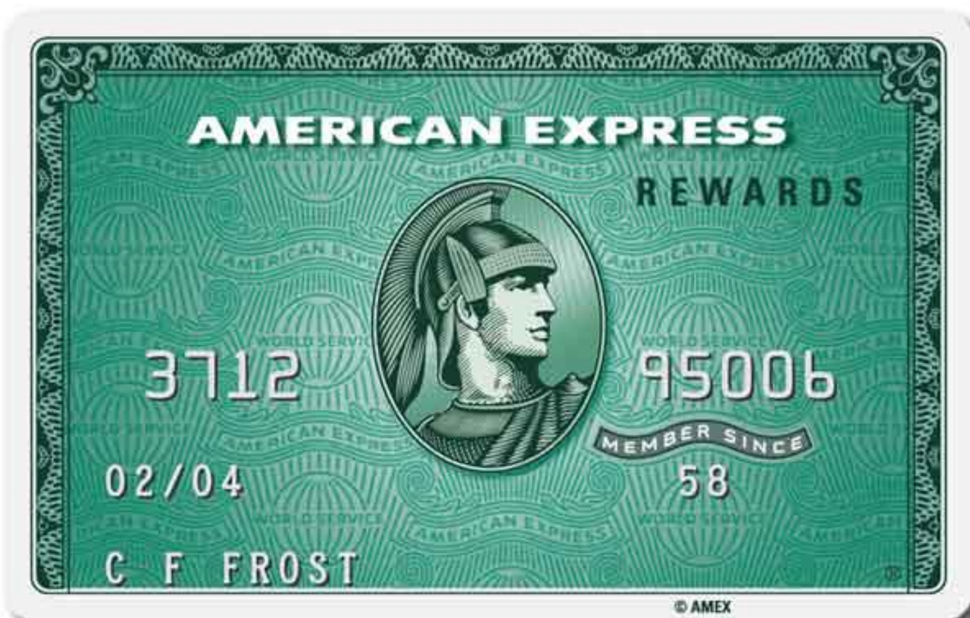
e) Store Accounts – allow you to charge items or services at that store only; can be revolving or installment plans.

i) Installment credit – amount is set for the purchase, balance is paid in a set period of time
ii) Merchants **encourage** their customers to use store credit
iii) Examples: Home Depot, Kohl's, Macy's

f) Charge Cards – like credit card but must pay balance IN FULL each month, annual fee

i) Examples: American Express, Diners Club

g) Loans – the lender may require the borrower to offer security for the loan; property that can be used as security is called **collateral**.

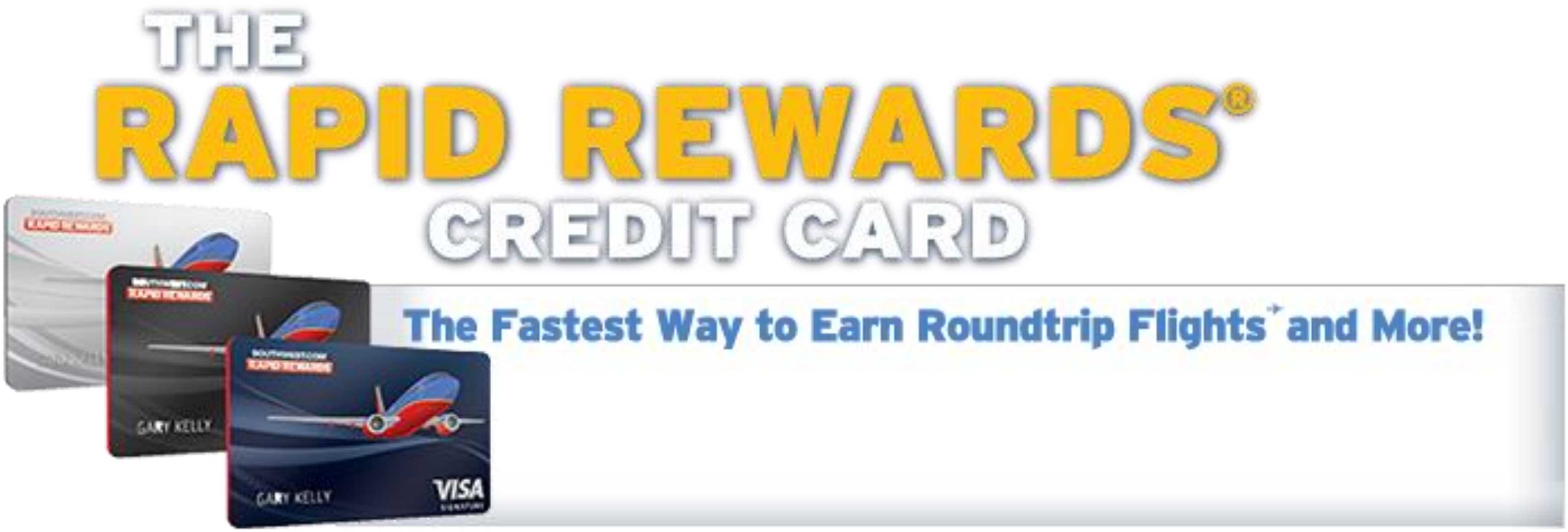


h) Lines of Credit – a preapproved amount that a debtor can borrow when needed; the maximum amount that can be borrowed is set.

2) Benefits of Credit

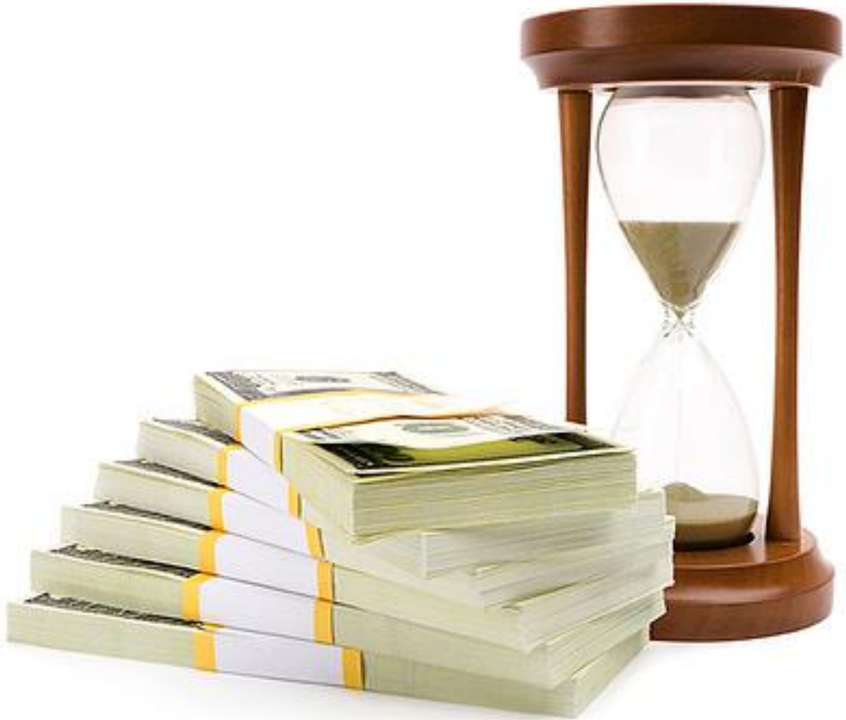
a) Convenience and Rewards

i) Reward Programs – points or cash back for using card

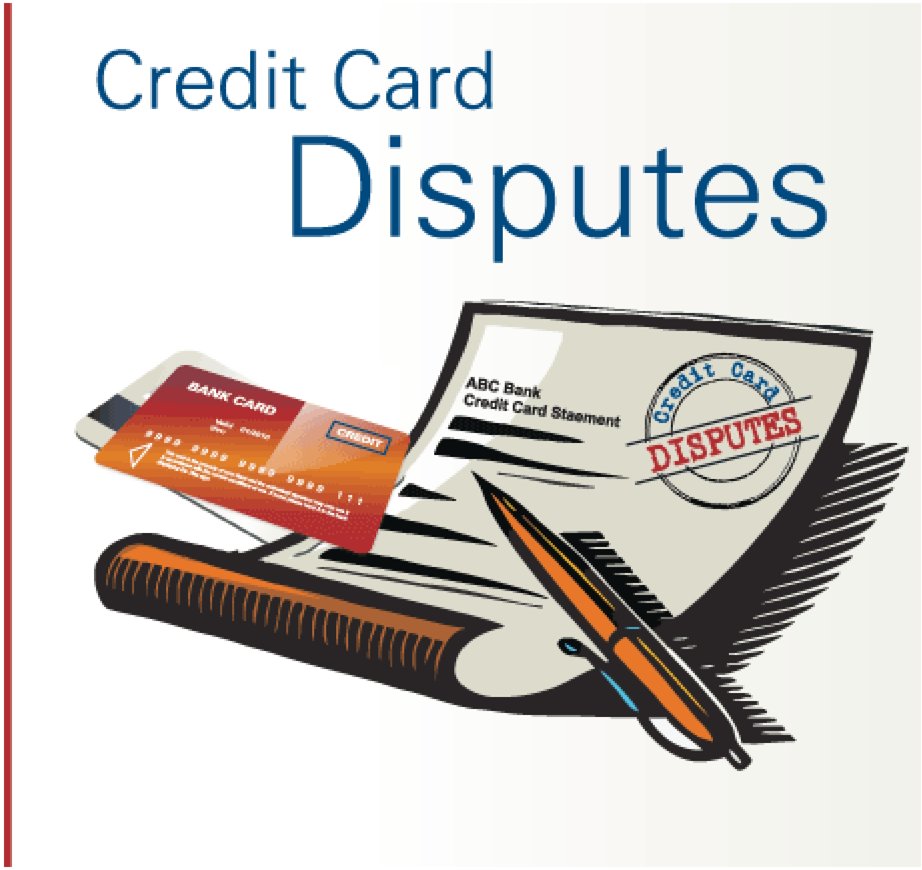


b) Increased Spending Power

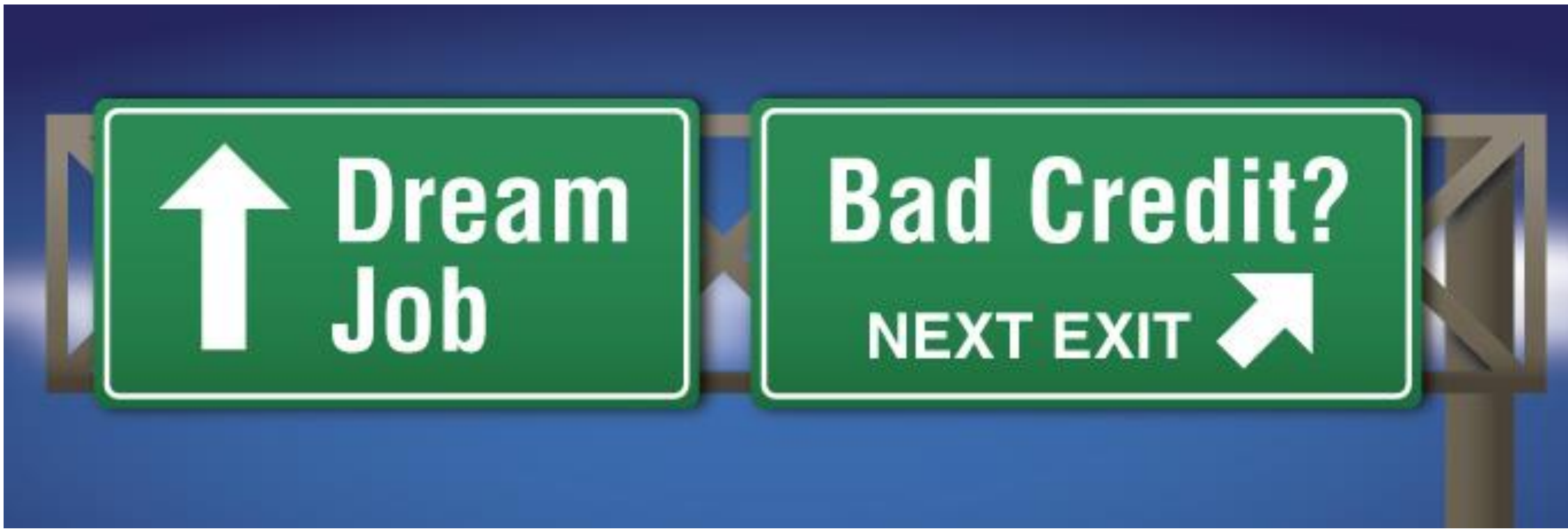
i) Without credit, many would have lower standards of living and would have to wait to buy things that can save them time and money



c) Records and Protection
   i) You can dispute charges with your credit card company, the dispute must be resolved within a certain time, you can withhold payment during the investigation



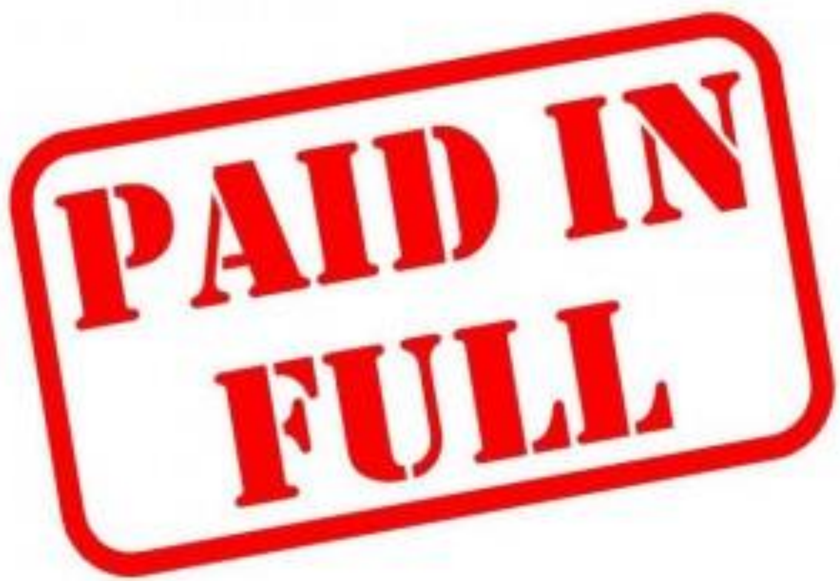
Chapter 7-3: Costs of Credit



1) Credit Costs

a) If you pay the full amount owed on your credit card each month, you can avoid paying interest charges.

$0.00 x 1,000,000% = **$0**



2) Fixed and Variable Rates

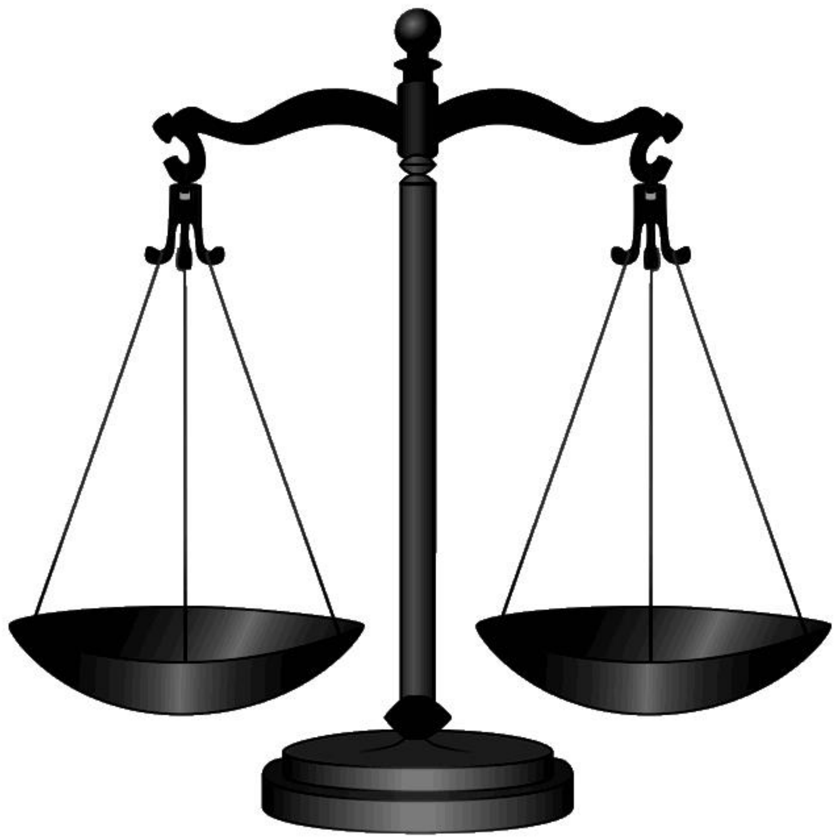
a) Fixed Rate – the interest rate is set and does not change each month or year.

b) Variable Rate – the lender or credit card company can change the rate often.

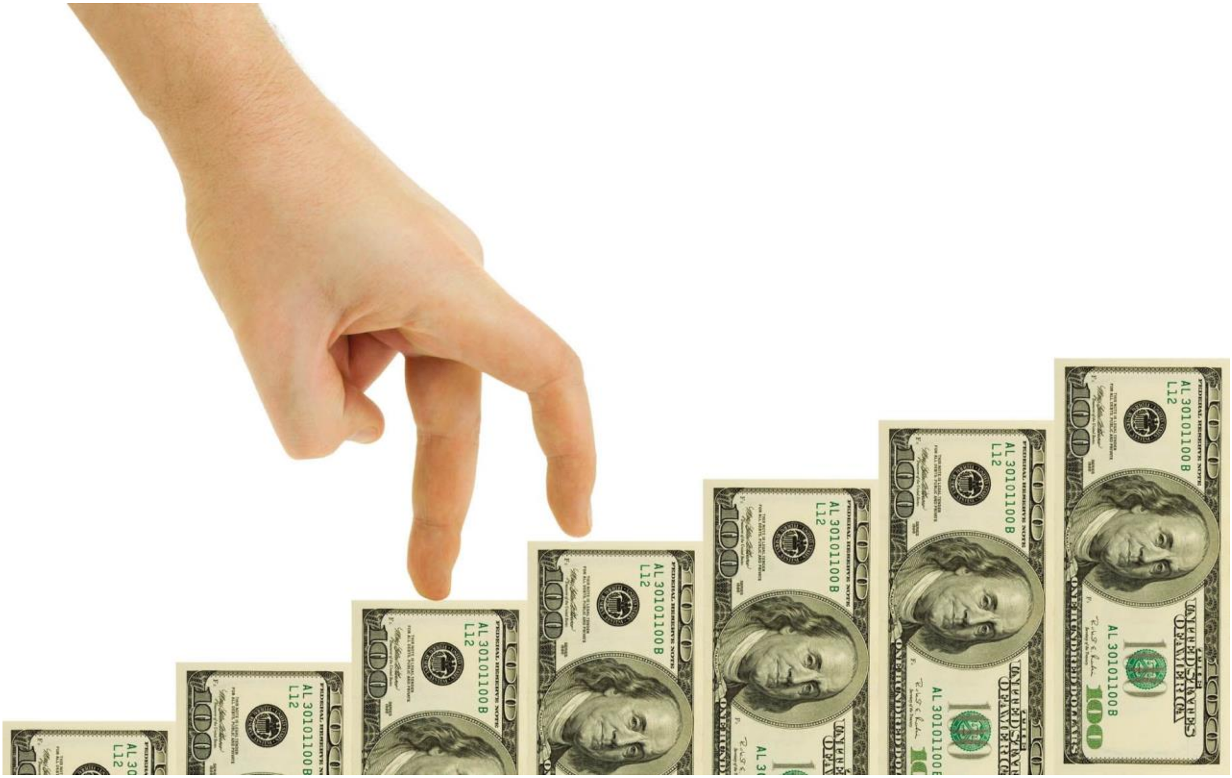
i) Variable Rates: Rise FAST, Decrease SLOW

3) Methods of Computing Interest

a) Adjusted Balance Method – a method of computing interest in which the interest is calculated AFTER charges and payments for the current period are applied. (Middle)



b) Previous Balance Method – a method of computing interest in which the finance charge is applied BEFORE the payments and charges for the current billing period are applied. *In other words, the interest is calculated using the outstanding balance at the end of the last billing period.* (Best)

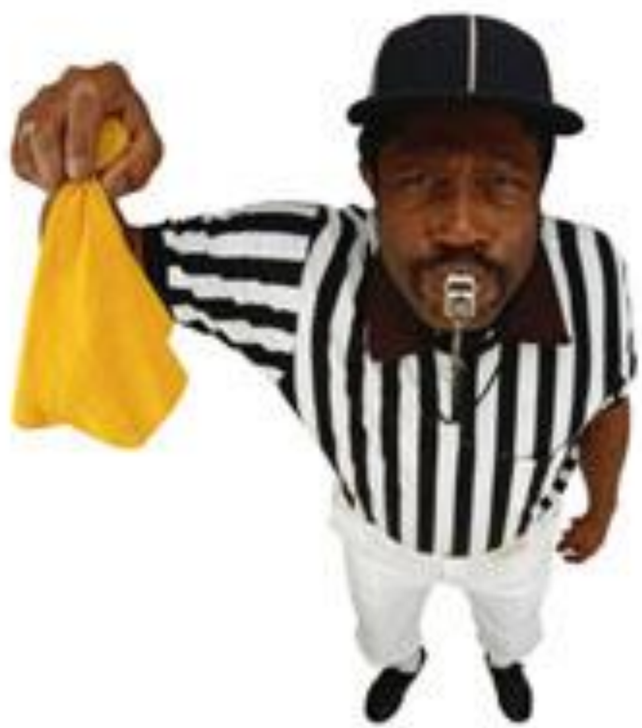


c) Average Daily Balance Method – a method of computing interest in which the finance charge is based on the average of the balances for all days of the billing cycle. *A balance is computed for each day of the month.* (Worst)

4) Penalties and Fees

a) Penalty – a fee charged for violating the credit agreement.

b) Over-the-limit fee – A fee charged to customers who exceed their credit limit. *Your transaction may also be refused.*



5) Special Rates

a) Low introductory interest rates often last 6 months to a year.

6) Technology

a) If you apply for credit online, YOU should initiate the contact – NEVER answer an ad or email!!!