

Total Cents Podcast Lesson 8

Explain Borrowing and Credit

Topic Overview

Debt often plays a huge part in one's physical and mental health throughout their adulthood. People who tend to overextend carry the weight of the world on their shoulders as they worry over how they are going to get out of their predicament. But how did they get into debt in the first place? They probably never had a conversation and thought it through before they started using credit as a financial tool in their everyday life.



Your Intro Discussion With Them

Tonight we are going to talk about borrowing. You already know, in general, what it means to borrow something. But tonight I want to talk about borrowing, specifically how it relates to money.

Step 1

Go BIG Picture

When it comes to money, what is a loan?

- *Library Example: You might not realize this but you've been learning about this topic your entire life. It started when you got your first library card. That was borrowing. The book was loaned to you.*
- *Loan Defined: Money that you borrow for a specific purpose with a promise to pay it back. Pay it back over time with a little extra money called interest.*

Step 2

Put it in real world context

What are the different types of loans?

Their typical answers

- *Mortgages,*
- *student loans*
- *personal loans (like for a car)*
- *Credit cards and*

Two types:

- *Secured- protected Mortgage or car...lender backed by an asset*
- *Unsecured loans - student loans and personal loans (higher rates of interest because more risk to lenders.*

Step 3

The How

Where can we get money?

Their typical answers

- *Bank of Mom/Dad*
- *Steal from brother/sister*
- *Banks*
- *Credit Unions*
- *Fill out a loan application which tells them credit history.*

What factors affect the terms of a loan?

- *Income*
- *Monthly expenses*
- *Credit history*

How do I repay it?

- *Pay in monthly payments called installments.*
- *Pay back with loans over a set period of time called term of the loan*

What happens if they don't pay the loan back?

Common responses:

- *Repossess item*
- *Lawsuit*
- *Garnish wages*
- *Debt collectors calling them*
- *Hurts your credit score for future borrowing*

Step 4

The Point - Credit Scores

What is a credit score?

A credit score predicts how likely you are to pay back a loan on time. A scoring model uses information from your credit report to create a credit score.

Some factors that make up a typical credit score include:

- *Your bill-paying history*
- *Your current unpaid debt*
- *The number and type of loan accounts you have*
- *How long you have had your loan accounts open*
- *How much of your available credit you are using*
- *New applications for credit*
- *Whether you have had a debt sent to collection, a foreclosure, or a bankruptcy, and how long ago*

Conversation Wrap Up

- *Companies use credit scores to make decisions such as whether to offer you a mortgage, credit card, auto loan, or other credit product. They are also used to determine the interest rate you receive on a loan or credit card, and the credit limit.*
- *As I mentioned in my opening, it's crucial for our children to get an early understanding on borrowing/loans/credit as their ability to handle this will have a huge impact on their future stress- which we all know is important to keep to a minimum for our physical and mental health*