

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 adulthood. It is crucial to develop financial literacy around borrowing in your children. This lesson allows a conversation about using credit as a financial tool in their everyday life, ensuring have an understanding of credit before they started using it as a vehicle to manage their finances.



Your Intro Discussion

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: Money that you borrow for a specific purpose with a promise to pay it back. That needs to be paid back over time with a little extra 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*

Two types of loans:

- *Secured mortgage or car loan where the asset is used as collateral*
- *Unsecured- student loans and personal loans (which sometimes carry higher interest rates and are harder to qualify for due to the increased risk to the lender).*

Step 3

The how

Where can we get money?

Their typical answers

- *Bank of Mom/Dad*
- *Brother/sister*
- *Banks*
- *Credit Unions*

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 loans over a set period of time called the loan term.*

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

Common responses:

- *Repossess item*
- *Lawsuit*
- *Garnish wages*
- *Calls from debt collectors*
- *Credit score damaged 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. It is a scoring model which 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.

It's crucial for our children to understand borrowing/loans/credit when they are young. This knowledge will have a huge impact on their future stress-which we know is vital to keep to a minimum for our physical and mental health.