When I say **credit,** what do you think of?

Credit:

-a contractual agreement in which a borrower receives something of value now and agrees to repay the lender later, usually with interest.

-credit worthiness or credit history of an individual or business (ability to borrow)

What is the difference between credit and debt?

What is the difference between credit and debt?

Debt is the result of using credit.

Debt refers to the amount of money you have borrowed and must pay back.

Credit is the amount that is available for you to borrow (ex: credit card) or your ability to borrow (ex: credit score)

Once you start using credit, you will have incurred debt that will need to be repaid.

How you manage your debt will impact your future access to credit. (Regular paying off credit cards will increase your credit score, showing you are a good borrower. So this will increase your access to credit in the future)

New Terminology

Creditor: extends credit by giving permission to borrow money in exchange for future repayment, typically with interest.

Personal Creditor: someone who loans money to friends, family, etc. They may charge interest but the loan will not have an agreement and the personal creditor is not in the business of lending.

Credit Limit: maximum amount of credit the financial institution will extend to a client. (For example, your credit card will have a credit limit of how much you can borrow.)

Minimum Payment: the minimum amount a lender is willing to accept of the balance owing, in each period. (Often a percentage of amount). If you choose to only pay the minimum payment, the remaining amount is rolled over but may be subject to interest.

Down Payment: initial payment made so the amount owing is reduced and therefore less interest will be charged. Sometims a down payment may be required (depending on item and credit worthiness of borrower.

Down payments can also be made to secure something, for example, placing a down payment on a hall for a wedding to hold it for that date. If you no longer need the hall, the down payment is usually non-refundable.

Guarantor and Co-Signer: agrees to pay a borrower's debt in the event they cannot themselves.

Advantages:	**Disadvantages:**
Why might we use credit?	Why might we avoid using credit?

With a partner or group of 3, create this chart on a piece of paper and fill it out without using any research.

Advantages:

Why might we use credit?

- allows you to purchase something now and pay for it in the future.
- allows purchase of more expensive items.
- allows for emergency or unexpected purchases
- card instead of cash-paper trail
- purchase in foreign countries without their currency
- online purchases
- credit company benefits ex: travel rewards

Disadvantages:

Why might we avoid using credit?

- buying more than you can afford
- pay interest on balances
- extra fees associated
- greater fraud and identity theft risk
- if used poorly, you may harm your ability to get credit in the future

Types of Credit:

Instalment Credit: borrowing money for a specific time and repaying it in fixed amounts, on a regular basis, until the loan is paid off.
ex: mortgages, auto loans, personal loans, etc.

Open Status Credit: lending agreement used repeatedly up to a certain limit and can be paid prior to the payment being due.
ex: utility bills, cell phone contracts

Revolving Credit: borrow money up to a set credit limit on an ongoing basis. The borrower makes regular payments with the amount depending on the balance of the account.

credit cards, line of credit,

Secured vs Unsecured Debt:

Secured debt involves an asset as collateral for the loan or having a guarantor or co-signer. This is secured for the lender because if the payments aren't made, they still have a way to get payment.

Example: mortgage (when you borrow money to buy a house, the house is used as collateral so if you don't make your payments, they keep the house.)

Unsecured debt is not secured for the lender so if payments aren't made, the lender has to initiate legal action to collect what is owed.

Example: credit card, line of credit.