Products of Credit:

1. Credit Cards
2. Loans
3. Line of Credit
4. Mortgages
5. Home Equity Loan

Before we dive into these from the borrower's point of view, let's look at things from the lenders point of view.

On the class website, play the ShadySam game. You are a loan shark and need to decide how to lend money to people for all their different needs, in order to make the most amount of profit! Please read the directions on your paper and record the amount of profit you made so we can compare.

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A credit card is issued by a financial institution and allows the borrower to borrow funds from that institution. The borrower is provided a credit limit and interest is charged each month. Most are unsecured, however, secured credit cards do exist.

Each period, the credit card holder will receive a credit card statement indicating the amount owing and a minimum payment and due date. The minimum payment must be paid by the due date, and the remaining amount will be charged interest after the due date. This is why it is ideal to pay the entire balance before the due date if possible.

Cash Advance: Credit cards do offer a cash advance (meaning you can use your credit card to get cash by buying cash instead of an item, however you are charged large fee to do this.)

Retail Store Credit Cards:

Some retail stores have a credit card issued by the store. They may offer terms such as no interest or no minimum payments for a certain amount of time. These are to convince you to purchase at their store rather than elsewhere. Sometimes using the credit card of the store gives you rewards/points as well.

Video to Watch:

https://www.youtube.com/watch?v=tQkA5gkulfU

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A loan is money, property, or other goods given to another party in exchange for future repayment, often with interest.

Loans can be issued for a variety of purposes, such as an automobile loan, mortgage, etc.

Loans can be secured (with collateral or co-signer) or unsecured.

Video to Watch:

https://www.youtube.com/watch?v=SiGMuM3E_YU

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A line of credit is an agreement between a financial institution and a client that establishes a maximum loan balance. This balance can be used/drawn for whatever the client wants and interest is charged on what is used.

A line of credit usually offers a higher credit limit than a credit card. It also offers lower interest rates. However, rewards cannot be earned through a line of credit like it can through a credit card. A line of credit can also be used to withdraw cash from (although you pay interest until it is repaid, but just regular interest, not other fees like a credit card cash advance)

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A mortgage is an instalment loan issued for buying ah ome. If a mortgage payment is not made, the lender has the right to sell the property to pay the loan.

The interest rate on mortgage may be fixed (stays the same throughout the agreement) or variable (interest amount fluctuates).

Products of Credit:

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4. Mortgages
5. Home Equity Loan

A home equity loan involves using your home as collateral to get a loan. Your home will be evaluated to see how much it is worth and the financial institution can take ownership of the house (only to be resold if you pass away). Repayment of the loan isn't required unless you move or sell your home, however if you pass away, the financial institution can sell your home to get their money back.

The Cost of Credit

As we learned with borrowing and interest, there is a cost to credit. The amount of interest, the length of the repayment term, and the compounding frequency all affect our borrowing.

There is also an opportunity cost associated. If we spend $1000 on interest alone, we've missed out on other opportunities we could've spend the $1000 dollars on. Also, by making payments for 30 years, we miss out on putting our money towards other things at that time.

How to Choose

Credit Card:

-best used for smaller, short term purchases (so you can repay before you're charged interest, as rates are usually high)

-retail credit cards are good if there is no/low interest

Line of Credit:

-when flexibility in purchases in needed (you don't know the exact amount it'll cost)

ex: renovations

Loan:
-when a lump sum payment is needed

ex: car or home

How do these affect students?

Assignment: Create an Advantages and Disadvantages Chart (just like we did together in the previous lesson) for the first four products of credit relating to you, as a student. You may do this on the computer or by hand. Use research to fill out each side to the best of your ability. You should have a minimum of 6 for each product (3 for advantages, 3 for disadvantages, however sometimes there will be more of one than another which is okay.)

Student Credit Cards:

Advantages	Disadvantages

Student Loans:

Advantages	Disadvantages

Student Line of Credit:

Advantages	Disadvantages

Mortgages:

Advantages	Disadvantages

Should They Open A Credit Card? Assignment