

CREDIT....HMMMM!

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for



CREDIT IS THE ABILITY
TO BUY NOW AND PAY
MORE LATER!

TRUE?

PAYMENT OF INTEREST
IS USUALLY A PART OF
USING CREDIT, SO YES,
IF YOU PAY INTEREST,
YOU PAY MORE!

FALSE?

IF YOU PAY YOUR BILL
BEFORE INTEREST IS
CHARGED, YOU DO NOT
PAY MORE!

ONLY ABOUT 30% OF AMERICANS PAYOFF
CREDIT BALANCES EVERY MONTH, SO
70% OF THE TIME, THE STATEMENT IS
TRUE!!

DOES IT MAKE SENSE TO PAY MORE?

YOU HAVE TO BE SMART!

Advantages of Credit

- Able to buy needed items now.
- Don't have to carry cash.
- Have a record of purchases.
- Expensive emergencies
- Convenient
- Purchase Protection

DOES IT MAKE SENSE TO PAY MORE? YOU HAVE TO BE SMART!

DISADVANTAGES

- PURCHASE WILL LIKELY COST MORE!!!
- MISTAKES WITH CREDIT TEND TO HAVE LONG TERM CONSEQUENCES
- IMPULSE BUYING IS EASIER IN OUR IMMEDIATE GRATIFICATION CULTURE



OKAY, IT COSTS MORE. WHY?

**You must pay companies to loan you money.
This payment is INTEREST.**

Two Types of Interest:

- Simple Formula-the simple formula
 - $I = P \times R \times T$
 - Interest= Principle X Rate X Time

OKAY, IT COSTS MORE. WHY?

- Compound Interest-- The not-so-simple formula

$$I = P \times 1 + (r/n)^{nt}$$

- I = final amount
- P = principal amount (initial investment)
- r = annual nominal interest rate (as a decimal, not in percentage)
- n = number of times the interest is compounded per year
- t = number of years

OKAY, IT COSTS MORE. WHY?


Let's look at an online credit card payment calculator that is based on the compound interest calculation formula:

<http://www.bankrate.com/calculators/credit-cards/credit-card-minimum-payment.aspx>



OKAY, IT COSTS MORE. WHY?

Assume that you owe \$5000 on your credit card and are paying 12% interest. You are making only the minimum monthly payment. How long will it take to payoff your balance?



OKAY, IT COSTS MORE. WHY?

What if you decide to pay \$400 every month and have a 12% interest rate?

- **NOTICE THE DIFFERENCE IN THE TOTAL INTEREST PAID!**



**WHEN YOU USE CREDIT, YOU
ALMOST CERTAINLY:**

BUY NOW!

PAY MORE, LATER!

**Sometimes MUCH, MUCH
MORE!!**

The bottom of the slide features a decorative design with overlapping geometric shapes. On the left, there is a blue triangle pointing towards the center. To its right is a larger orange triangle pointing towards the right. The background of the bottom section is a solid light blue color.