



# CREDIT MANAGEMENT

*“Financial Readiness Means Mission Readiness”*



## **First, a few facts:**

- ▶ **Personal Credit Card Debt**
  - ▶ 1990.....\$2,985
  - ▶ 2001.....\$8,376
- ▶ **43% of credit card holders make only the minimum monthly payment at least part of the time.**



## First, a few facts:

**Charge: \$5,000**

**APR: 18%**

**Minimum Monthly Payment:**

**2%, \$100**

**Pay Off Time:**

**46 yrs**

**Interest Paid:**

**\$13,391**

**If paid \$200 Pay Off Time:**

**2.6 yrs**

**Interest Paid:**

**\$1,314**



# Agenda

- ▶ **Uses of credit**
- ▶ **Establishing credit**
- ▶ **Shopping for credit**
- ▶ **Choosing and using credit cards**
- ▶ **Credit reports**
- ▶ **Credit laws**
- ▶ **Debt recovery**



# Wise Use of Credit

- ▶ **To purchase assets**
- ▶ **For convenience**
- ▶ **To take advantage of sales**
- ▶ **Emergencies** (convenience)
- ▶ **Education** (future assets)
- ▶ **“Big Ticket” items**



# Unwise Use of Credit

- ▶ **To purchase consumables**
- ▶ **Impulse buying**
- ▶ **Spending for status**
- ▶ **Retaliatory spending (couples)**
- ▶ **Spending to feel good**
- ▶ **Everyday living expenses**
- ▶ **Negative effects**



# Is This You?

- ▶ I have 7 to 9 credit cards
- ▶ I rarely pay off my balance every month
- ▶ I have no idea where all of my cards are right now
- ▶ I have not seen my credit record in 5 years



# Establishing a Credit History

- ▶ **Maintain a checking or savings account**
- ▶ **Pay bills on time**
- ▶ **Share (savings) secured loan**
- ▶ **Cosigned loan**
- ▶ **Local retailer or gas card**
- ▶ **Major retail charge account**
- ▶ **Major bank card**



# Qualifying for Credit

- ▶ **Three C's of Credit**
  - ▶ **Character**
  - ▶ **Capacity**
  - ▶ **Collateral**
- ▶ **Credit Worthiness**





# Shopping for Credit

- ▶ **Careful shopping for credit is as important as careful shopping for the item you are buying (maybe more so!)**
- ▶ **Secured loan**
- ▶ **Unsecured loan**



# Shopping for Credit

- ▶ **The decision making process**
  - ▶ **Define the need**
  - ▶ **Search for alternatives**
  - ▶ **Obtain information**
  - ▶ **Compare the alternatives**
  - ▶ **Make the choice**
  - ▶ **Review and evaluate the decision**



# The Cost of Credit

- ▶ **Where to borrow?**
- ▶ **How much do you borrow?**
- ▶ **How long will you take to repay?**
- ▶ **How is the interest calculated?**
- ▶ **What is your credit worthiness?**



# Where to Borrow

- ▶ **Credit Unions**
- ▶ **Banks**
- ▶ **Savings & Loan associations**
- ▶ **Finance companies**
- ▶ **Retail merchants**





# How Much You Borrow

## Interest Rate of 9% on a 5 yr. Loan

Down Payment	Amount Financed	Monthly Payment	Finance Charge	Total Cost
\$0.00	\$10,000	\$207.60	\$2,456	\$12,456
\$2,000	\$8,000	\$166.08	\$1,965	\$9,965
\$5,000	\$5,000	\$103.80	\$1,228	\$6,228



# How Long to Borrow

## Interest Rate of 9%

Term of Loan	Amount Financed	Monthly Payment	Finance Charge	Total Cost
1 Year	\$10,000	\$874.50	\$494	\$10,494
3 Years	\$10,000	\$318	\$1448	\$11,448
5 Years	\$10,000	\$207.60	\$2456	\$12,456



# Monthly Payment

- ▶ **Beware of the myth of the minimum payment**

**\$1,000 credit card balance, 18% APR**

	<b>Pay Off</b>	<b>Interest Paid</b>
<b>2% = \$20</b>	<b>19 years</b>	<b>\$1,931</b>
<b>5% = \$50</b>	<b>2 years</b>	<b>\$198</b>



# How Interest is Calculated

- ▶ Simple interest
- ▶ Add-on interest
- ▶ Rule of 78s

***Read the  
Contract!***

**Example: \$1,000 at 12% for 1 year**

**Simple Interest paid = \$66**

**Add-on interest paid = \$120**

**Do you need to borrow at all and, if so, how much?**

**Calculate your debt-to-income ratio**



A useful tool in determining your financial stress level. Do the math and consider where you are before taking on further debt.

1. **Net Income** (Gross monthly pay minus taxes only; i.e., federal taxes, state taxes, and Social Security.) 1. \_\_\_\_\_  
Total

2. **Installment Credit** (Include charge accounts, car payments, advance pay, overpay, etc. Do not include rent, mortgage, utilities, or insurance payments.)

<i>Creditor</i>	<i>Monthly Payment</i>	
A. _____	\$ _____	
B. _____	\$ _____	
C. _____	\$ _____	
D. _____	\$ _____	
E. _____	\$ _____	
F. _____	\$ _____	
G. _____	\$ _____	
H. _____	\$ _____	2. _____ Total

3. Divide line 2 by line 1, multiply by 100

(2) \_\_\_\_\_ ÷ (1) \_\_\_\_\_ x 100 = \_\_\_\_\_ %  
Total

<i>Percent</i>	<i>Status</i>
Less than 15%	Some additional credit may be used with caution.*
15% - 20%	Fully extended.
21% - 30%	Overextended.
Greater than 30%	Seriously overextended. Seek help!

\* Will the additional monthly payment put you over 20%? Large families may have a difficult time with 16% or more.



# Debt-to-Income Ratio Meaning

- ▶ **Total of all monthly debt payments divided by net monthly income (not including mortgage)**

**<15%**

**OK to add credit (with caution)**

**15 - 20%**

**Fully extended**

**21-30%**

**Overextended**

**>30%**

**Seek help immediately**



# Choosing Credit Cards

- ▶ **Comparing credit cards**
  - ▶ Annual fee
  - ▶ Interest rate
  - ▶ Grace period
  - ▶ Terms for cash advance
  - ▶ Fees: late, over-the-limit, cash advances, other transactions



# Using Credit Cards

- ▶ **Can be a big benefit**
  - ▶ Good cash flow tool
  - ▶ Very convenient
  
- ▶ **Can be a big problem**
  - ▶ Used for consumables
  - ▶ Commits income not yet earned
  - ▶ May lead to impulse buying
  - ▶ Can leave you open to fraudulent use



# Debit Cards

- ▶ Like a checkbook
- ▶ PIN or signature
- ▶ Monthly fees
- ▶ Federal safeguards
- ▶ Tough returns
- ▶ When to use





# STARCARD

- ▶ **Use at ALL military installments**
- ▶ **Administered by AAFES**
  - ▶ **1-877-891-STAR or [www.aafes.com](http://www.aafes.com)**
- ▶ **Finance charges accrue**
- ▶ **Can reach into your paycheck**



# Government Credit Cards

- ▶ **Purchase cards**
- ▶ **Travel cards**
- ▶ **Authorized and approved charges only!**



# Warning Signs of Too Much Credit

- ▶ **Not paying off each month**
- ▶ **Making only minimum payments**
- ▶ **Gradually more income committed to debt repayments**
- ▶ **Falling behind on payments**
- ▶ **Using cash advances to meet monthly living expenses**



# Other Indicators

- ▶ **Little or no money in savings**
- ▶ **Dependent on second job to make ends meet**
- ▶ **Owing over 20% net income per month to creditors**
- ▶ **At or near credit limits most of the time**



# Critical Point

- ▶ **Rotating bills** (paying some this month, some next month)
- ▶ **Using credit to pay credit**
- ▶ **Being denied additional credit**
- ▶ **Dishonesty with spouse about debts**
- ▶ **Use of consolidation loans to reduce payments**



# Credit Reporting Agencies

- ▶ **Purpose of a credit bureau**
- ▶ **Three major agencies**
  - ▶ **Equifax: 800-685-1111**  
[www.credit.equifax.com](http://www.credit.equifax.com)
  - ▶ **Experian: 888-397-3742**  
[www.experian.com](http://www.experian.com)
  - ▶ **Trans Union: 800-916-8800**  
[www.transunion.com](http://www.transunion.com)



# Credit Reports

- ▶ **Personal information**
- ▶ **Credit history** (trade lines)
- ▶ **Public records**
- ▶ **Inquiries**
- ▶ **Information stays with you for 7 yrs.,  
Bankruptcy - 10 yrs.**
- ▶ **Individual files**



# Consumer Credit Protection Laws

- ▶ **Truth in Lending Act**
- ▶ **Fair Credit Billing Act**
- ▶ **Fair Credit Reporting Act**
- ▶ **Fair Debt Collection Practices Act**
- ▶ **Equal Credit Opportunity Act**
- ▶ **Fair Credit and Charge Card Disclosure Act**
- ▶ **State laws**



# Dealing with Creditors

- ▶ **Stay in contact**
- ▶ **Be honest**
- ▶ **Approach them with a plan**
- ▶ **Change your behavior**





# Beware of:

- ▶ **Credit clinics**
- ▶ **Debt consolidation loans**
- ▶ **Bankruptcy**
  - ▶ **Chapter 7**
  - ▶ **Chapter 13**





# Debt Recovery

- ▶ **Construct a budget and spending plan, prioritize debts**
- ▶ **Construct a “power payment” plan**
- ▶ **Keep creditors informed**
- ▶ **Debt management programs**



# Sources of Help

- ▶ **Your First Sergeant**
- ▶ **Your Unit Financial Specialist**
- ▶ **Family Support Center**
- ▶ **Legal Assistance**
- ▶ **Credit Union or Credit Counseling Agencies**

***Credit is a privilege - Use it wisely!***