



5-2

Problems with Credit:  
Credit Overload

# Scenario

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- If the interest rate on your loan is 9% and you make monthly payments of approximately \$250 for three years you can buy an \$8000 car. If you make app. the same payment for 5 yrs you can purchase a \$12,000 car. Which would you purchase? Why?
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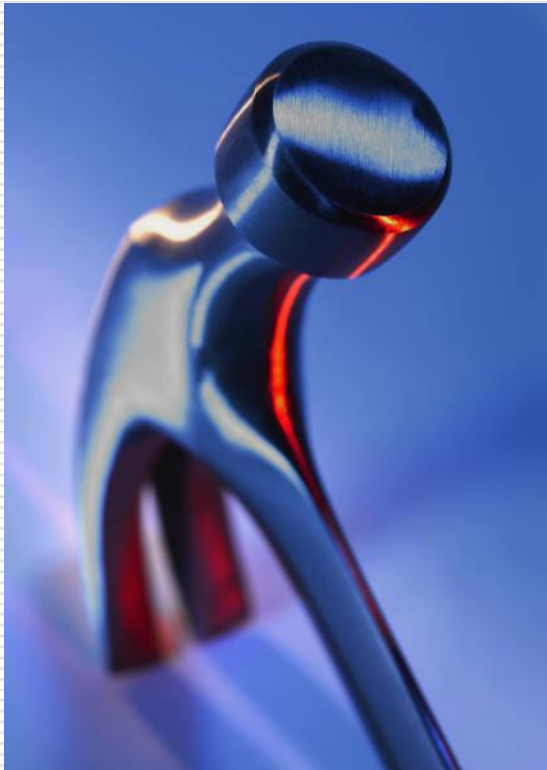
# Objectives:

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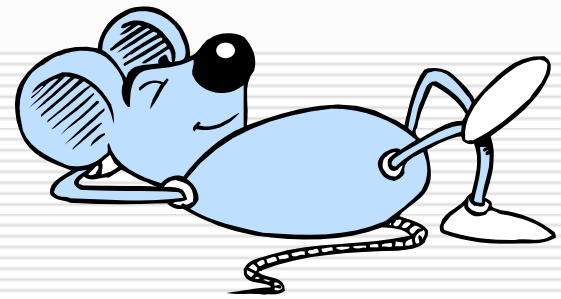
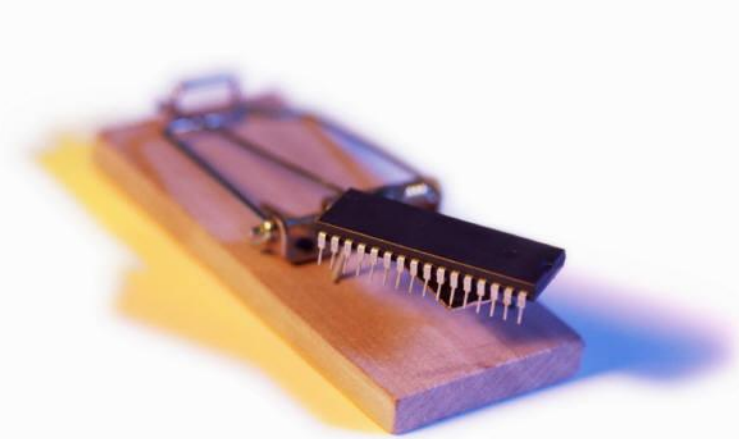
- ❑ Problems with using credit
  - ❑ Using too much credit
  - ❑ Effects of payback period of a loan on the total payments and interest charges
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# Credit

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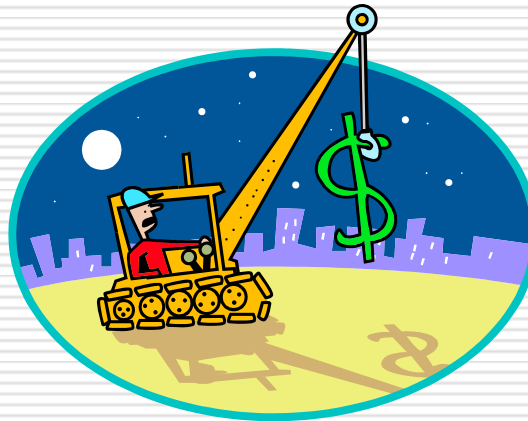
or



# Credit: Tool or Trap?

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- Keep the following points in mind:
  - Credit is rented money:
    - Borrowers pay heavily for using credit.



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- Why do lenders encourage indulging in using credit?
    - It is very profitable for the lenders



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Credit ties up future income.

You are spending future income or earnings when you make credit purchases.

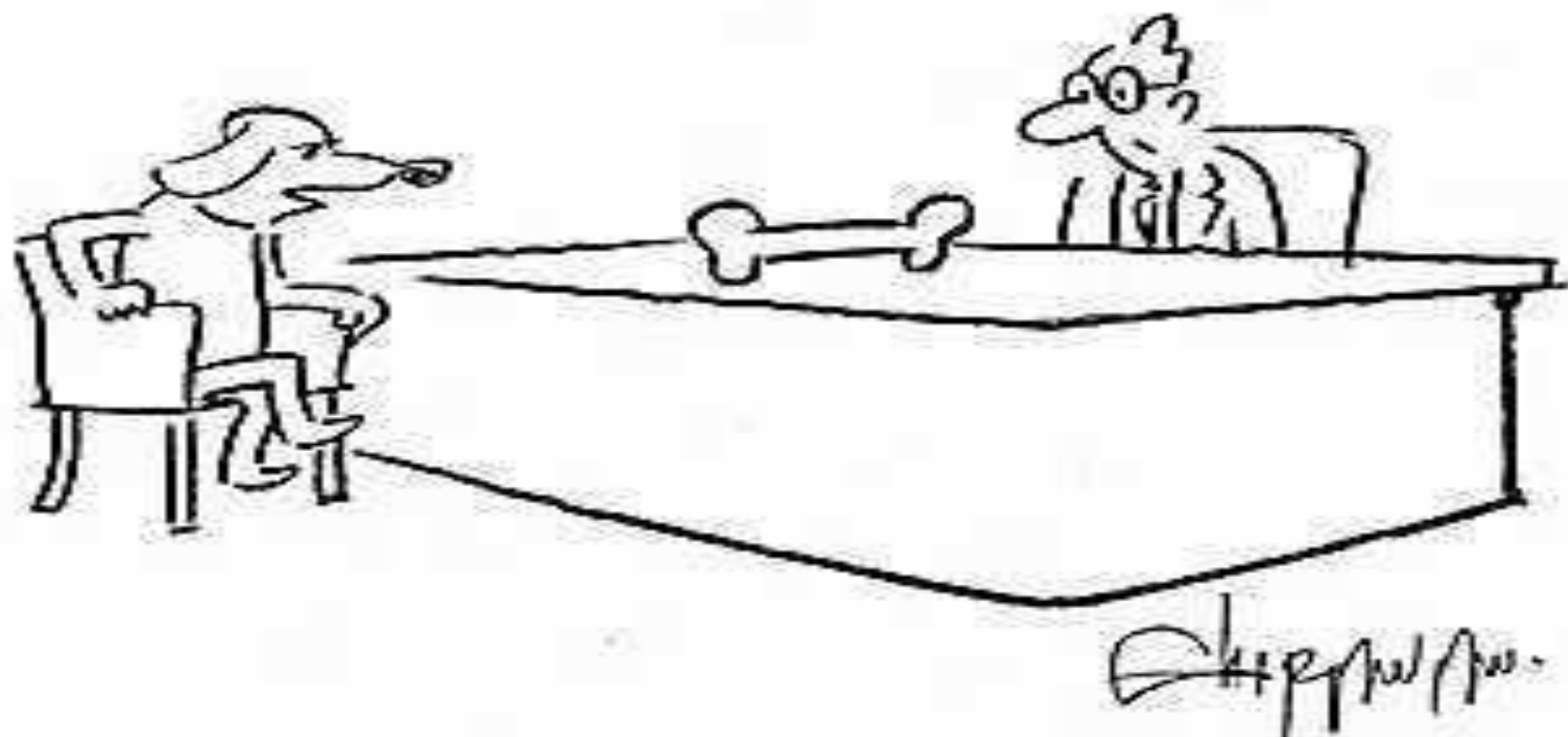
This is risking because...

Your income could disappear and you may be unable to make the payments

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*Shippel Ave.*

"Where I come from it's called collateral."



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- Credit makes it easy to overspend.
    - Businesses that offer convenient credit terms are selling more of their product.
    - Customers are more willing to buy using credit than if they were to pay cash.
    - Why?
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# Managing Credit

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- People, businesses, and even governments can be forced into bankruptcy through unwise use of credit.
  - Examples:
    - [Argentina](#) went bankrupt in 2001. They could not repay \$145 billion in foreign debts.
    - Iceland (2008)
    - Germany (1920's as a result of losing WWII, and in 1945)



According to Bloomberg Businessweek

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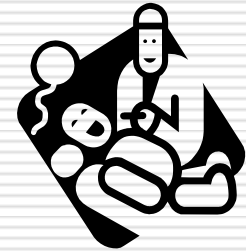
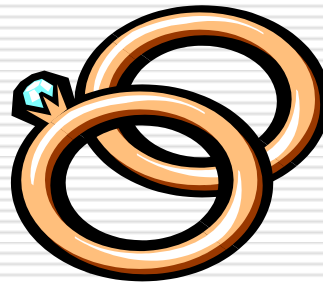
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Excessive debt can effect your entire life.

■ Job performance

■ Marriage

■ Health



Installment buying can be helpful when used wisely.

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- A helpful way to measure your ability to handle debt is:
    - 10% of take-home pay is comfortable to spend making credit payments
    - 15% is manageable
    - 20% is dangerous
      - (note: not including home mortgage)
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# Signs you are suffering from credit debt:

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- You miss some installment payments to make the monthly mortgage payment.
- You get a new loan to repay an old one.
- You continue to use credit cards, even though you can only afford to pay the minimum amount



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- ❑ You take out loans to combine debts or ask for extensions
  - ❑ Repeated overdue notices
  - ❑ Little or no savings or are using savings to pay monthly bills you used to pay out of monthly income
  - ❑ Telephone calls or letters from creditors.



# ASSIGNMENT

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