

**"Help! I Need A Loan!"**  
A Personal Finance Seminar  
for Kosciusko County  
High School Students

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# WHAT IS CREDIT?

Credit is a trust relationship which allows you to use goods and services today and pay for them in the future based upon a scheduled agreement.

## USING CREDIT

### ADVANTAGES

- ▶ Allows you to take advantage of sales
- ▶ Provides you a way to acquire a home, car, and a college education
- ▶ Establishes a credit record for the future
- ▶ Makes purchases convenient
- ▶ Keeps savings account balance available for future use

### DISADVANTAGES

- ▶ Provides temptation to overspend
- ▶ Commits future earnings to debt repayment
- ▶ Interest increases the true cost of purchases
- ▶ Can lead to a poor credit record if misused
- ▶ Provides false economic security

# HOW TO ESTABLISH CREDIT

Many young people get into trouble with credit because they are desperate to establish credit and because it is easy for them to qualify for more credit than they can manage.

Open a checking and savings account at a local financial institution to establish a relationship with them. Make sure you save regularly and don't overdraw your checking account from being overdrawn.

The very best way to establish credit initially is to borrow against an acceptable asset. For example, if you have saved \$1,000 and want to borrow the same amount, almost any bank will lend you \$1,000 using your savings account as collateral. Usually the lender will charge from 1 to 2 percent more interest than the prevailing savings rate. So in essence, it costs about 2 percent interest to establish a good credit history. For a one year loan of \$1,000, the net cost would be approximately \$20.00. Then, by using the bank as a credit reference, almost anyone can qualify for a major credit card, although the credit limit would normally be the minimum amount.

Credit is relatively simple to establish if you have already acquired the discipline of saving. If someone who has never had credit wishes to establish a credit card and tries enough places, somebody will issue him one. The difficulty with this method is that once the first company issues a card and the person uses it wisely, other companies will soon follow suit, and he will be swamped with credit card applications. The temptation of too much credit is often overwhelming for a young person (or couple), and he can quickly find himself over his head in debt.

# The 4 "C's" of Lending

## Character

- ▶ Job time
- ▶ Job stability
- ▶ Length of residence
- ▶ Intended use of proceeds
- ▶ Limited use of credit cards
- ▶ Ability to

## Credit

- ▶ Types of
- ▶ Patterns
- ▶ Delinquencies
- ▶ Payment histories

## Capacity

- ▶ Sufficient income
- ▶ Dependable income
- ▶ Manageable debt level

## Collateral

- ▶ Value of
- ▶ Marketability
- ▶ Easy to gain possession of



CREDIT APPLICATION

SOURCE OF A...
In Person
Dealer
Officer

Date

Amount Requested \$ Term Purpose
Full Name Birthdate
Address (Street) (City) (State) (Zip Code)
Prev. Address (Street) (City) (State) (Zip Code)
S.S. No. Home Phone No. D
Employer How Long Yrs Mos Net Salary
Address Position
Prev. Employer How Long
Other Income Amount \$ Freq
Banks w/Checking Savings
Landlord/ Mortgage Balance Rent/ Mortgage Pmt
Creditor Balance Pmt
Creditor Balance Pmt
Creditor Balance Pmt
Creditor Balance Pmt
Creditor Balance Pmt
Alimony/Support Payments \$ /month Outstanding Judgments?
Vehicle 1: Yr Make Vehicle 2: Yr
Nearest Relative Address

Co-Applicant To Complete

Full Name Birthdate
Address S.S. No.
Employer Position
How Long Yrs Mo Net Salary Freq
Prev. Employer How Long Yrs Relationship to Applicant

Alimony, child support, or separate maintenance income need not be revealed if you do not wish to have it considered as a b... obligation.
I/We certify that the statements contained in this application made by me/us as an inducement for Lake City Bank to grant m... further certify that all statements made by me/us as listed in this application are true and correct and that the loan and financial... with the monthly installment payments are correct and complete, in regards to the amounts and total outstanding indebtedne... that this application shall remain the property of Lake City Bank, whether this loan is granted or not.

(Applicant) (Co-Applicant)

# CREDIT REPORT

1 DUNCAN, ELIZABETH\*2 9923,, WOODBINE,, CHICAGO, IL, 60693\*3 10, N, CAMINO, , CA, 94583\*5 001-01-0418\*\*

## TRANS UNION CREDIT REPORT

① <FOR> <SUB NAME> <MKT SUB> <INFILE> <DATE>  
 (I) D248 ABC DEPT STORE 06 CH 4/74 02/15/94

<SUBJECT> <SSN> <BIRTH>  
 ② DUNCAN, ELIZABETH 001-01-0418 2/53  
 <ALSO KNOWN AS> <TELEPHONE>  
 COOK, ELIZABETH 555-47

<CURRENT ADDRESS> <DATE>  
 9932 WOODBINE, #9B CHICAGO IL. 60693 11/93

<FORMER ADDRESS> <DATE>  
 10 N. CAMINO, OAKLAND CA. 94583 2/92

<CURRENT EMPLOYER AND ADDRESS> <POSITION>  
 MARRIOTT HOTELS <INCOME> <VERF> <RPTD> <HIRE>  
 8638 GRAND, ANYTOWN IL. CONCIERGE 32500Y 1/94 1/94 1/91

### SPECIAL MESSAGES

- ③ \*\*\*TRANS-ALERT: INPUT ADDRESS DOES NOT MATCH FILE ADDRESS\*\*\*
- ④ \*\*\*HAWK-ALERT: VERIFY INPUT...  
 - CURRENT ADDRESS IS COMMERCIAL

### MODEL PROFILE

⑦ \*\*\*NEW DELPHI ALERT: SCORE ⑤ +775: 26, 03, 06, 25 \*\*\*

### CREDIT SUMMARY \* \* \* TOTAL FILE HIST

⑧ PR=1 ⑨ COL=1 ⑩ NEG=1 ⑪ HSTNEG=1-6 ⑫ TRD=2 ⑬ RVL=1 ⑭ INST=1 ⑮ MTG=0 ⑯ OPN=0 ⑰  
 ⑱ HIGH CRED ⑲ CRED LIM ⑳ BALANCE ㉑ PAST DUE ㉒ MONTHLY PAY AVAIL  
 REVOLVING: \$500 \$1000 \$100 \$ \$20 ㉓ 90%  
 INSTALLMENT: \$16.0K \$ \$12.4K \$1974 \$282  
 ㉔ TOTALS: \$16.5K \$1000 \$12.5K \$1974 \$302

### PUBLIC RECORDS

SOURCE	DATE	LIAB	ECOA	ASSETS	DOCKET#
Z 4932059	8/93R	\$13.0K	C	\$0	93B38521
CIVIL JUDGMENT			CHICAGO, IL		R. SMITH/D. WINS

### COLLECTIONS

SUBNAME	SUBCODE	ECOA	OPENED	CLOSED	\$PLACED	CREDITOR
ADVANCED COL	Y 999C004	I	3/93	3/93F	\$2500	ABC BANK
12345			2/94A		\$1000	MAKING PAYMENTS

### TRADES

SUBNAME	SUBCODE	OPENED	HIGHCRED	TERMS	MAXDELO	PAYPAT
AMERICAN BK	B 6661001	7/92	\$16.0K	60M282	2/94	54332321111
9876543210		2/94A		\$1974	\$1974 05	11111111
I NISSAN MAXIMA			\$12.4K	*CONTACT	SUBSCRIBER	19V 2/
FILENES	D 3847002	6/89	\$500	MIN20		11111111111
2212345678		2/94A	\$1000			11111111111
C /CREDIT CARD			\$100			48V 0/

### INQUIRIES

DATE	SUBCODE	SUBNAME	DATE	SUBCODE	SUBNAME
2/15/94	DCH248	ABC DEPT STORE	1/7/94	BPH9999	TEST F

END OF CREDIT REPORT - SERVICED BY :  
 TRANS UNION CORPORATION 810-52  
 PO BOX 390, SPRINGFIELD, PA. 19064

# Calculating Debt to Income

A debt to income ratio is a tool used by the bank to determine whether or not a customer can manage a new payment.

We first look at the customer's net monthly income (after taxes). Then we take into consideration any additional income (second job, handyman work, rental income, etc.).

Secondly, we total the customer's current monthly debt (mortgage or rent payment, car payment(s), credit card payment(s), student loan payment(s), etc.).

We then calculate a new payment for the amount the customer is requesting.

Lastly, a percentage is calculated by dividing all debt (including new payment) by the net income to give us the customer's debt to income ratio.

For example:

<b>Net Monthly Income</b>	<b>\$ 2,000.00</b>
<b>Current Monthly Payments</b>	<b>550.00</b>
<b>Calculated New Payment</b>	<b>195.00</b>
<b>Total Payments</b>	<b>= 745.00</b>
<b>Debt to Income Ratio</b>	
<b>(745.00 ÷ 2,000.00)</b>	<b>= 37 %</b>

A new monthly payment of \$195.00 should fit comfortably into this customer's budget. Anything more may be difficult for them to pay and would not be a favor to them or the bank.

# HOW MUCH SHOULD YOU SPEND

<b>HOUSING:</b>	20%-35% of your take home pay. This category includes rent, mortgage payments, home repairs and improvements as well as property taxes.
<b>UTILITIES:</b>	4%-7% of your take home pay. Includes gas and electricity, waste disposal, water and telephone.
<b>FOOD:</b>	15%-30% of your take home pay. All food items including eating out, pet food, and food at work.
<b>ESSENTIALS:</b>	1%-4% of your take home pay. Laundry, dry cleaning, toiletries, cosmetics, hair dressing, postage and stationary, etc.
<b>MEDICAL:</b>	2%-8% of your take home pay. Includes insurance premiums, prescription drugs, medicines and well as all medical bills.
<b>CLOTHING:</b>	3%-10% of your take home pay. All clothing purchases, alterations and repairs (shoes, etc.)
<b>TRANSIT:</b>	6%-20% of your take home pay. Includes car payments, gas and oil purchases, car insurance and repairs.
<b>RECREATION:</b>	2%-6% of your take home pay. All games, hobbies, etc.
<b>SAVINGS:</b>	5%-9% of your take home pay.
<b>MAD MONEY:</b>	1%-4% of your take home pay.



INCOME FOR THE WEEK \$ \_\_\_\_\_ - MONEY TO BE SAVED FOR GOALS \$ \_\_\_\_\_ = BUDGETED FOR EXPENSES \$ \_\_\_\_\_

Amount Budgeted (for week)	Food & Snacks	Books/School Supplies	Clothes	Tapes & CDs	Movies & Concerts	Auto Insurance & Repairs	Miscellaneous	TOTAL BUDGETED FOR WEEK
SUNDAY								
MONDAY								
TUESDAY								
WEDNESDAY								
THURSDAY								
FRIDAY								
SATURDAY								
Amount Spent (for week)								TOTAL SPENT FOR WEEK*

\*If TOTAL SPENT FOR WEEK is more than TOTAL BUDGETED FOR WEEK, you will have to find additional income or cut expenses to meet your goals.

REPRODUCIBLE MASTER



Fill in your goals in the space indicated. Determine how much you will need to save and within what time frame in order to accomplish your goals. This will help you establish a weekly or monthly budget.

SHORT-TERM (WITHIN ONE YEAR)

GOAL \_\_\_\_\_

Total \$ Needed

\$ \_\_\_\_\_

Time Frame

\_\_\_\_\_

Monthly \$ To Be Saved

\$ \_\_\_\_\_

MID-TERM (ONE TO FOUR YEARS)

GOAL \_\_\_\_\_

Total \$ Needed

\$ \_\_\_\_\_

Time Frame

\_\_\_\_\_

Monthly \$ To Be Saved

\$ \_\_\_\_\_

LONG-TERM (FOUR YEARS OR MORE)

GOAL \_\_\_\_\_

Total \$ Needed

\$ \_\_\_\_\_

Time Frame

\_\_\_\_\_

Monthly \$ To Be Saved

\$ \_\_\_\_\_

REPRODUCIBLE MASTER

## Do's and Don'ts of Credit

### Do:

- Establish a savings pattern.
- Build equity in purchases.
- Pay all obligations promptly.
- Obtain adequate insurance on all property plus yourself.

### Don't:

- Get caught up in credit traps.
- Use rent-to-own or finance companies.
- Avoid taxes rightfully owed.
- Assume bills not received are paid in full (especially medical bills).
- Avoid liability because of a dispute.

# PROJECT PROUD PRESENTATION

## **"HELP! I need a loan!"**

A personal finance seminar for Kosciusko County  
High School Students

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### I. INTRODUCTION - "CHARGE IT"

- A. Total credit offered to consumers by bank card issuers is up 33% year, to 1.02 trillion
  - 1) Consumers owe a record 19% of disposable income, not in mortgage, home equity, or auto lease debt.
  - 2) Credit card debt alone accounted for 7.5%.
  - 3) Credit card use at supermarkets is up 50% in just six months.
  - 4) Average cardholder carries a balance of \$3,900, with only a paying their balance in full each month.
  - 5) Delinquent credit card payments increased by 14% in 1995 after dropping for two years, consumer bankruptcies rose a slightly over 858,000 nationwide.

### II. SHIFT OF FOCUS TOWARD COLLEGE STUDENTS

- A. Competition of major credit card companies to sign up college students
  - 1) Presently college students spend about \$60 billion a year, and credit card companies recognize that these students can develop lifelong credit card brand preferences.
  - 2) Studies indicate 59% of the nation's college students have some sort of credit card.

### III. PURPOSE OF PROJECT

- A. Develop a concise seminar for the schools of Kosciusko County to present to high school seniors focusing on:
  - 1) Developing savings habits and patterns.
  - 2) Positioning themselves to obtain needed, desirable credit.
  - 3) Avoiding the pitfalls and traps of credit card debt.

### IV. SEMINAR OUTLINE

- A. Definition of credit and the realistic need of credit in today's society.
- B. Suggested methods of establishing credit.
- C. Overview of factors involved in credit decision.
- D. Explanation of credit application process.
- E. Review of credit report format and emphasis on necessity of maintaining good credit.
- F. Budgeting principles and potential list of financial goals.