

Understanding and Using Credit
Money Talks
Salt Lake City, Utah
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What is Interest?

Interest is how a bank, business or person is compensated for delaying use of their money. It is made up of inflation, risk, and time

How does inflation affect the cost of things?

Inflation makes things cost more dollars over time. The price of some things have gone up slower than inflation, while the price of others has gone up faster. Go to www.bls.gov and click on the inflation calculator link on the upper left hand side of the page. Check out the price of houses, wages, movie ticket, candy bar, etc. over time to see how things have changed. Ask parents and grandparents the price of things and the date, use this information in the inflation calculator to find out the equivalent price today.

Savings

The longer time you have the more your money will grow. Find out how much you would have to save to become a millionaire by the time you are 65 if you start saving when you are:

	7% interest	10% interest
15 years old		
25 years old		
35 years old		
45 years old		

What kind of affect does the interest rate and time have on the amount needed?

Using Credit

Credit is a tool just like a drill is a tool. If I know how to use the tool correctly then I can do things that I would not be able to do without it. However, if I use it incorrectly, I can get hurt. Anytime you use a tool, you should first understand how to use it safely and what it is doing. It is the same with credit.

- Two people that both make \$5 per hour after taxes and other withholdings. They each buy a \$100 item. One buys it by working and saving their money. The other buys it with credit and then pays it off.

How many hours did it take the first person to earn enough to pay for the item _____

If the other person used a credit card to buy the item that has 18% interest and it took them 1 year to pay off the credit card, how much did they end up paying?

_____ How many hours did they have to work? _____

If both people work the same number of hours, but the second person always buys on credit, can they purchase the same amount of things? Yes or No

- When would credit be useful as a tool?
- We want to see the effect of both the length of a loan and the interest rate has on a payment. Suppose we buy a house for \$250,000. We put a down payment of 10% or \$25,000 and borrow the remaining \$225,000. Fill in the table below.

Years for loan	6%	8%	10%	12%
15 years				
20 years				
30 years				

What do you notice from the numbers in the table?

Thank you for coming. You should now have a better understanding of how credit works.