SSB STANMORE School of Business Distinctive and Defining tomorrow

Undergraduate Certificate in Youth Financial Education

Credit and Debt Management

Credit and Debt Management are essential components of financial literacy that are crucial for young adults to understand as they navigate the complex world of personal finance. In this course, students will learn about key terms and concepts related to credit and debt, which will empower them to make informed and responsible financial decisions. Let's delve into the vocabulary that is essential for mastering Credit and Debt Management.

Credit:
Credit is the ability to borrow money or access goods and services with the understanding that you will pay for them later. It is a financial tool that allows individuals to make purchases or investments without having to pay the full amount upfront. When you use credit, you are essentially borrowing money from a lender, such as a bank or credit card company, with the promise to repay the borrowed amount, usually with interest.

Types of Credit:
1. Revolving Credit: Revolving credit is a type of credit that allows you to borrow up to a certain limit and make payments on the borrowed amount over time. Credit cards are a common example of revolving credit, where you can make purchases up to your credit limit and pay off the balance in full or make minimum payments each month.
2. Installment Credit: Installment credit involves borrowing a fixed amount of money and repaying it in regular installments over a set period. Auto loans, student loans, and mortgages are examples of installment credit, where you make fixed payments until the loan is fully repaid.

Credit Score:
A credit score is a numerical representation of an individual's creditworthiness, which is based on their credit history. Lenders use credit scores to assess the risk of lending money to a borrower. The most common credit scoring model is the FICO score, which ranges from 300 to 850. A higher credit score indicates a lower credit risk, making it easier to qualify for loans and credit at favorable terms.

Credit Report:
A credit report is a detailed record of an individual's credit history, including their credit accounts, payment history, outstanding debts, and inquiries. Credit reports are compiled by credit bureaus, such as Equifax, Experian, and TransUnion, and are used by lenders to evaluate a borrower's creditworthiness.

Debt:
Debt is money that is owed by one party to another, typically borrowed from a lender with the agreement to repay the borrowed amount, often with interest. Debt can take various forms, including credit card debt,

student loans, mortgages, and personal loans. Managing debt responsibly is crucial to maintaining financial stability and avoiding financial pitfalls.

Types of Debt:
1. Secured Debt: Secured debt is backed by collateral, such as a car or a house, which the lender can repossess if the borrower fails to repay the loan. Mortgages and auto loans are examples of secured debt, where the collateral serves as security for the lender.
2. Unsecured Debt: Unsecured debt does not require collateral and is based on the borrower's creditworthiness. Credit card debt and personal loans are common forms of unsecured debt, where the lender relies on the borrower's promise to repay the borrowed amount.

Debt-to-Income Ratio:
The debt-to-income ratio is a financial metric that compares an individual's monthly debt payments to their gross monthly income. It is calculated by dividing total monthly debt payments by gross monthly income and is expressed as a percentage. Lenders use the debt-to-income ratio to assess a borrower's ability to manage additional debt and make timely payments.

Interest Rate:
An interest rate is the cost of borrowing money, expressed as a percentage of the loan amount. Lenders charge interest on loans and credit to compensate for the risk of lending money and to generate profit. The interest rate can vary depending on the type of loan, the borrower's creditworthiness, and prevailing market conditions.

Minimum Payment:
The minimum payment is the smallest amount that a borrower must pay each month to maintain their credit account in good standing. For credit cards, the minimum payment is typically a percentage of the outstanding balance, usually around 2-3% of the total amount owed. Making only the minimum payment can result in high-interest charges and prolong the time it takes to repay the debt.

Credit Utilization Ratio:
The credit utilization ratio is a measure of how much of your available credit you are using at any given time. It is calculated by dividing your total credit card balances by your total credit limits and is expressed as a percentage. Maintaining a low credit utilization ratio, ideally below 30%, can positively impact your credit score and demonstrate responsible credit management.

Credit Counseling:
Credit counseling is a service provided by non-profit organizations to help individuals manage their debts and improve their financial literacy. Credit counselors offer guidance on budgeting, debt repayment strategies, and credit management techniques to help clients achieve financial stability and avoid bankruptcy.

Bankruptcy:
Bankruptcy is a legal process that allows individuals or businesses to eliminate or repay their debts under the protection of the court. Bankruptcy can provide relief from overwhelming debt but has long-term consequences, such as a negative impact on credit scores and limited access to credit in the future. It is considered a last resort for individuals facing severe financial hardship.

Financial Literacy:
Financial literacy is the knowledge and skills required to make informed and effective financial decisions. It encompasses understanding key financial concepts, such as budgeting, saving, investing, credit, and debt management. Improving financial literacy is essential for individuals to achieve financial stability and build wealth over time.

In conclusion, mastering Credit and Debt Management is crucial for young adults to achieve financial success and avoid common pitfalls. By understanding key terms and concepts related to credit and debt, students can make informed decisions, manage their finances responsibly, and build a solid foundation for a secure financial future. By applying the knowledge gained in this course, students can navigate the complexities of credit and debt with confidence and achieve their financial goals.