



Greater Bank Finance Academy

Credit, Debt
and Banking



As you become responsible for your own finances, you will likely start thinking about buying larger items, like a car or going to University. Used carefully, credit can be an important part of managing money. But with so many different credit options around nowadays, such as credit cards and Afterpay, it's easy to get into serious financial trouble.

This lesson introduces you to credit and how to use it responsibly. You will also learn different aspects of credit, what a credit report is, and how repayment behaviour can affect your credit score.



Learning objectives:

Explore different sources of credit and debt

Understand important aspects of credit such as interest and repaying what you borrow

Learn what a credit report is and evaluate how the use of credit influences your credit score

Exercise self-awareness towards your behaviour and knowledge of credit

Important points to note:

- The change from physical to digital money has affected spending behaviour.
- Technology, like mobiles and internet, is breaking the connection we make between the physical and digital world, money included.
- When using physical money, people better understand that spending today means less for tomorrow.

Activity:

Answer yes or no to the following questions:

Do you have a savings account in your name? (This must be a savings account, not your everyday spending account) **Yes/No**

Does that account have a balance of more than \$50? **Yes/No**

Are you putting money into that account on a regular basis? For example, when you get paid from part-time work, pocket money, birthday money etc. **Yes/No**

The reason this is important is because budgeting and saving (which was covered in Lesson 3) becomes important when looking at credit and debt. Those savings and budgeting habits actually help to show your ability to repay debt.

Essentially if you can save, you can repay a loan. It's the same skill.

The commitment to pay a set amount over a period of time describes both savings and repayment of a loan. And if you have a regular savings plan you are less likely to need a loan, or the loan amount may be much less.



What is credit?

What is Credit/debt?

The borrowing of funds with a legal obligation to repay the money – usually with interest. Debt is the sum of money owed.

What is Interest?

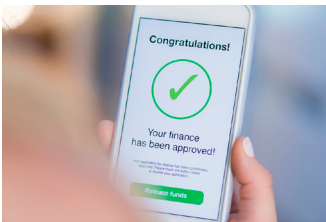
This is usually calculated as a % of the amount borrowed and is added to the amount borrowed.

Example - If you were to buy a car for \$10,000
You took a loan over a 5 year term at 6.89% interest
That \$10,000 car actually costs \$11,850



Types of credit

Credit makes it more convenient to obtain something we want or need without having to save the whole amount before we can get it, and if debt is well managed it can be seen as good. If debt is not controlled or managed then it can effect your long term financial wellbeing.



Home loans/Personal loans



Credit Cards or Store Cards



Payday loans / After Pay

Home loans mean you can own your own home earlier as you don't have to save \$450,000 to purchase one outright. You will have to save a deposit though, so using your budget and savings goal will be important.

Personal loans can help you get a new car and pay it off over a length of time. They can also be used for other larger purchases such as a laptop. Generally interest rates are lower for a personal loan than they are for a credit card.

Credit Cards or Store Cards provide you with extra cash flow. They are easy to get but have high interest rates so be careful when using one to make sure you repay it as soon as possible.

Payday loans / After Pay – These buy-now, pay-later schemes sound too good to be true and they often are! You may not pay anything for the item now, but you can be penalised with high fees for late payments. They also impact your credit score.

Activity: Match the Habits

Instructions:

Budget Betty and Spending Steve want to make some financial purchases. They want to purchase a new laptop for uni, a new car for around \$20,000 and go on an overseas holiday.

Match the financial decisions with lines to each character. Budget Betty makes good financial decisions and Spending Steve makes not so good financial decisions.



Budget Betty

- Betty works part time earns \$500 per week and is studying.
- She saves \$150 of her income each week.
- Her savings account balance is \$15K.



Spending Steve

- Steve works part time earns \$500 per week, also studying.
- Doesn't worry about savings.
- His account balance is \$500 – because he just got paid today.

Increases the limit on the 'interest free credit card' to \$10,000 to cover the flights and swears they will pay it back.

Finds the car they always wanted. Buys it for \$30,000. Applies for a loan over 5 years at 8.95% interest.

Decides that they want to concentrate on their studies this year as they have just used a lot of their savings on a new car. Decides to make a savings goal for the next 12 months.

Decides to get an 'interest free credit card' with \$5,000 limit and purchase a new laptop with it for \$2,500.

Decides that a new car for \$20,000 is a bit much to take on now as work might not be stable. Buys a second hand car for \$8,500.

Buys a laptop on sale for \$1,500 from their savings.

Credit choices



Budget Betty

- Savings account still has \$5,000
- Debt \$0

- Buys a laptop on sale \$1500 from her savings
- Decides that a new car of \$20K is a bit much to take on now as work might not be stable. Buys a second hand car for \$8,500
- Decides that she wants to concentrate on her studies this year and as she has just used a lot of her savings on the new car. Decides to make a savings goal for the next 12 months.



Spending Steve

- Steve Savings now \$0
- Debt now \$40,000 PLUS interest!

- Decides to get an "interest Free Card" Limit \$5k, New laptop \$2,500
- Finds the car he always wanted! But its \$30K Applied for a loan over 5 years 8.95% interest
- OMG the flights are on sale! Ups the limit on the "Interest free" card to \$10K to cover the flights and swears he will pay it back.


Types of credit

Activity


Loan Calculator:

Personal Loan Calculator


Which loan is for you?





New Car



Secured



Unsecured

Loan Amount ⓘ

\$ 10,000

○

Loan Term ⓘ

5 Years

○

Repayment Frequency

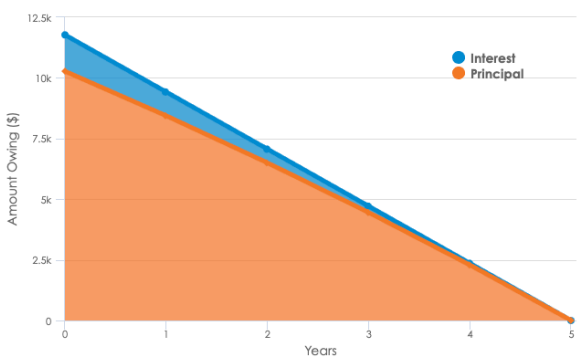
Monthly

Fortnightly

Weekly

SAVE WITH AN EXTRA REPAYMENT >

Your Repayment Chart



The chart shows the amount owed over a 5-year period. The y-axis represents the amount owing in thousands of dollars, ranging from 0 to 12.5k. The x-axis represents years from 0 to 5. The total amount owing starts at approximately \$11,500 at year 0 and decreases to \$0 at year 5. The chart is divided into two components: Interest (blue) and Principal (orange). The principal component is the larger portion of the total amount owing, and the interest component is the smaller portion.

Regular Repayment
\$196 / month at **5.49%** p.a.

Comparison Rate
5.87% p.a.

Total Interest Payable
\$1,498 over 5 years

Total Loan Amount
\$10,275
(Includes \$275 Application Fee)

Use the above calculator to figure out how long it will take to pay off an Unsecured Loan of \$5,000 if you make the minimum repayments – the answer should be around 5 years.

How long do you think it will take to pay off the \$5,000 if you make an extra \$50 per month payment?

A good credit score is too important

A credit score is a number that indicates your ability to repay your debts. It is a way of defining how risky you are as a customer if a bank was to lend you money. This is known as your 'creditworthiness'.

This information is held on a database that is accessible by any bank, phone company or credit provider.

A good credit score can help you get a loan for larger purchases like a car, or house. It might also be used when you move out of home and try to find somewhere to rent.

How is the credit score calculated?

- The type of credit providers you have used (e.g. bank or utility company).
- The amount of credit you have borrowed.
- The number of credit applications and enquiries you have made.
- Any unpaid or overdue loans or credit.
- Any debt agreements or personal insolvency agreements relating to bankruptcy.

Credit score is a number that summarises the information held on your credit report to provide an indication on how likely you are to pay back the money you owe to a credit provider. This is known as your 'creditworthiness'.

What can you do to build or maintain your credit score?

- Pay your bills on time, every time. This doesn't just include credit cards - late or missed payments on other accounts, such as mobile phones, may be reported to the credit bureaus, which may impact your credit scores. If you're having trouble paying a bill, contact the lender immediately. Don't skip payments, even if you're disputing a bill.
- Pay off your debts as quickly as you can.
- If you have a missed payment, catch up and stay current.
- Keep your credit card balance well below the limit.
- Apply for credit sparingly. Applying for multiple credit accounts within a short time period may impact your credit score.
- Check your credit reports regularly. Request a free copy of your credit report and check it to make sure your personal information is correct and there is no inaccurate or incomplete account information. You can access free copies of your credit reports from each of the three major credit bureaus every 12 months by visiting www.creditsavvy.com.au.

Excellent 900>

You are highly unlikely to have any adverse events harming your credit score in the next 12 months.

Very good 800-900

You are unlikely to have an adverse event in the next 12 months.

Good 700-800

You are less likely to experience an adverse event on your credit report in the next 12 months.

Average 600-700

You are likely to experience an adverse event in the next 12 months.

Below average 600<

You are more likely to have an adverse event being listed on your credit report in the next 12 months.

Credit and Banking tips

- Set up a savings account.
- Make a budget and savings plan and stick to it.
- If you want something set a goal and work towards it.
- If you need to obtain a loan for something like a car, check the interest rates, fees, early payment fees. All loans are different, don't feel pressured to apply for a loan before you have investigated what you're getting into.
- Look after your credit file.
- Talk to your local Bank Manager. We are here to help you.



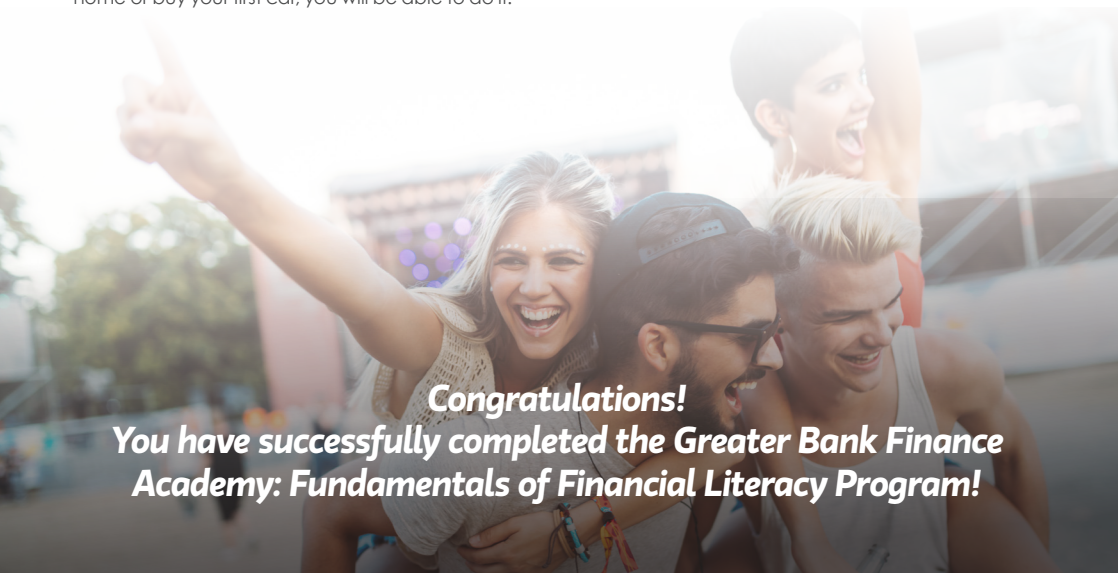
Reflection

1. How can you use credit wisely as part of your life?

2. What does paying your bills late do to your credit rating?

3. Do you feel differently about your financial situation now after completing this course?

We want you to take this information, and use it to make better decisions so when you're ready to buy your first home or buy your first car, you will be able to do it.



Congratulations!
You have successfully completed the Greater Bank Finance Academy: Fundamentals of Financial Literacy Program!



For more information call **13 13 86**,
visit greater.com.au/uon or come and
chat with us at your local branch.



Any advice in this Program is general and does not take into account your objectives, financial situation or needs. You should consider whether the advice is suitable for you and your personal circumstances.

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