



A University of Hawai'i Cooperative Extension Service Project

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Course Objectives



- Increase your knowledge about financial planning
- Improve your ability to make informed decisions



Consumer Credit

Presenters



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Lesson Objectives



- Learn the basic principles of Credit
- Understand the importance of having good credit
- Discover and understand the basic types of loans

What is Credit?



- Someone willing to lend you money in a form of a loan or line of credit in exchange for your promise to re-pay it, usually with interest
- Credit's Pros/Cons:
 - Pros: Faster gratification, convenience & emergencies
 - Cons: Interest, overspending & too much debt

Importance of Credit



“Credit plays an important role in our lives every day and at life’s most significant moments. Whether you’re a college student, a working professional, a parent or a widower, building and maintaining good credit is essential. Major purchases such as a house or a car, and even employment opportunities, can be dependent on a good credit history.”

[experian.com](https://www.experian.com)

Different Types of Loans



- Secured:
 - Guaranteed by collateral (auto loan, mortgage and savings account)
- Unsecured:
 - No collateral (installment loan, credit cards and student loans)

How Does a Loan Work?



Installment

- Loans have fixed rates, and fixed monthly payments that ensure your loan is paid off at the end of the term
- Recommended for long term borrowing (mortgages, car loans, etc...)

How Does a Loan Work?



Revolving or Line of Credit

- Lines usually have variable rates, and variable monthly payments. As long as you re-pay, you may borrow from the line of credit again
- Recommended for short term borrowing (emergency funds, vacation, etc...)

Cost of Credit



- Better credit = Better rate
- If you PAY MORE, you SAVE MORE



How to Qualify for a Loan



C's of Credit

- **Character** - Steady employment, stable residence, regular payments of bills, etc...
- **Capacity** - Ability to pay
- **Collateral** - Asset of value (car, home, savings) that the lender can take if you do not re-pay
- **Credit** - History of how much you owe and how you made payments in the past
- **Conditions** - Loan's purpose/reason for borrowing, may factor in local economic conditions , both within your industry and other industries that can affect your business

What is a Credit Report?



Record of your personal financial transactions or credit history

- How much you have borrowed
- From whom you have borrowed
- How well you have repaid debts
- How you are handling current debts

* The behavior and record of payments is reflected through your FICO score*

What is a FICO Score?



Fair Isaac Corporation - FICO

- Scores can range from 300 – 850
- Takes time to build, there are no quick fixes
- It can stay on your report for 7 – 10 years
- Basic Rule: The higher the score, the better!

Summary



- Understanding how credit works can open doors to a successful financial future
- Be informed on the types of loans available to you; BETTER CREDIT = BETTER RATE
- Your credit score tells a story of your Credit Risk. The higher the score the better!

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Credits



We would like to thank the following groups for their support:

- University of Hawai'i
 - College of Tropical Agriculture & Human Resources, Cooperative Extension Service, Department of Family & Consumer Sciences
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- Hawai'i Bankers Association
- Bank of Hawai'i