

Spotlighting Teen Issues

for
Teens

Do You Have What It Takes to Deal With Debt?

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Buy now! Pay later! It may be very tempting to use a credit card or get a loan to purchase something you want today so you don't have to wait until you have the cash to pay for it. Credit can be good, but it can also be bad if you get into debt over your head. Use this fact sheet to see whether you can deal with debt.

There are good, bad and ugly facts about debt.

- **The Good:** A good credit history will allow you to get good rates for loans for automobiles, real estate and other purchases. Credit can make shopping easy, help you deal with emergencies, and allow you to travel more safely without too much cash. Credit can also help you acquire assets and build wealth.
- **The Bad:** If used poorly, credit can get you into financial trouble. You may not be able to make all your payments on time and within your current income. Poor credit can lead to stress and even to poor health.
- **The Ugly:** A poor credit history can harm your and your family's future. You may be unable to borrow money to get a house or car; or if you can borrow, you may pay more in interest. You also may not be able to invest for a college education for your children or for retirement.



Too Much Debt Can Affect Your Future

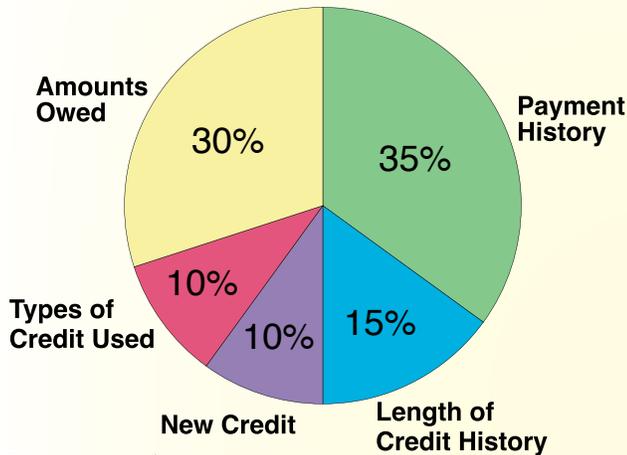
Two types of debt that young people often take are credit card debt and college loans. Here are some facts:¹

- More college students have to drop out because of debt than for bad grades. They have to get jobs in order to pay off their bills!
- 18 – 24 year olds – young people just out of high school – have the fastest growing debt loads.
All this debt can lead to serious consequences.

¹ "Making the Case for Financial Literacy." JumpStart Coalition for Personal Financial Literacy, 2005. <http://www.jumpstart.org/index.cfm>

Don't Damage Your Credit History

Your credit history is a record of how you have paid your debts. Lenders look at this record to decide whether to give you more credit and how much to charge in fees and interest. The better your history, the better the deal you will get on a loan. Credit reporting agencies keep your history on file and update it as lenders you do business with give them new information. The chart shows how lenders weigh the information in your credit record to make loan decisions. How you pay your bills and how much you owe are the largest factors.



Source: www.myfico.com

Subprime Loans Cost More

Sub-prime creditors lend to people who do not qualify for regular loans because they have a poor credit history or have too much debt already. Sub-prime lenders charge interest rates that are higher than a regular loan. The extra interest on a subprime loan for a house or car can cost you lots of money. For example, Tennesseans who have sub-prime loans pay around \$300 more each month for a mortgage on an average-priced home with a regular loan.

Use Credit Wisely

Ask yourself these questions before making purchases on credit.

- How will these payments fit into my present budget?
- Will this item last longer than my payments?
- Will I want this item as much later, when I am making payments, as I do right now?
- Will this item increase my income, save time or improve my health?
- How much will using credit increase the cost of this purchase?
- If I lost my income, how would I make payments?
- Am I using credit for convenience with a sure means of paying later OR am I using credit because I do NOT have the means to pay?

For More Information

Start planning now how for how you will deal with debt and credit. These Internet sites can help you learn more about managing your money and using credit wisely.

The Motley Fool

<http://www.fool.com/teens/teens.htm?source=PFinAg>

Young Money magazine

<http://www.youngmoney.com/>

The National Endowment for Financial Education

<http://www.nefe.org/hsfppportal/includes/main/home.asp?portal=1>

Nellie Mae, subsidiary of SLM Corporation (Sallie Mae)

<http://www.nelliemae.com/managingmoney/>

Visit the UT Extension Web site at <http://www.utextension.utk.edu/> and the Family and Consumer Sciences Web site at <http://www.utextension.utk.edu/fcs/>

SP681-U 10/06 07-0018