

# Money Talks

To Young Adults  
and their families

Brought to you by your local bank and the ABA Education Foundation

Bankers look at the 4 C's of credit to determine your credit worthiness.



## Character

Your lender will look for signs of stability and reliability, such as confirmation of employment and proof of regular rent or mortgage payments.

## Collateral

A lender may require that a loan be backed up by the value of your personal property, such as your house or your car.

## Capacity

As a borrower you will be required to prove that you have the independent means to repay the loan. A steady job that provides dependable income ranks high in importance.

## Credit

Your outstanding credit and payments history will be reviewed by the lender.

## THE COST OF CREDIT

**The truth about payday lending:** Payday lenders bank on consumers needing cash right away with plans to repay it quickly. Payday loans or “check cashing,” “payroll advance” or “deferred deposit” loans are intended to be emergency loans until your next paycheck. But while other reputable lenders like your local bank are federally monitored and regulated, payday lenders are not. To receive a payday loan a consumer only needs an open bank account in relatively good standing, a regular income and identification. Because a borrower’s credit worthiness does not have to be established this is a very risky—and expensive—type of loan. For example, a \$300 credit card cash advance repaid in one month could cost the borrower \$13.99, an APR of 56 percent. While a payday loan for the same \$300 could cost at least \$30, an APR of 120 percent.

Avoid payday loans by establishing your own \$500 emergency fund in your savings account. If you are in a jam and need cash immediately, consider the following options.

### Alternatives to Payday Loans:

1. Ask your employer for a paycheck advance.
2. Obtain a line of credit from an FDIC approved lender.
3. Ask your parent or guardian to lend you the money.
4. Apply for a traditional small dollar loan.
5. Ask your creditor for more time to pay a bill.
6. Use a cash advance on your credit card.



## NEW CARD ACT AND YOUNG ADULTS

### How will the new credit card rules affect me?

According to a new federal law that takes effect in February 2010, card applicants under age 21 must have a co-signer or proof of independent income to be approved for a credit card. Those under 21 who opened a credit card account before February 2010 will not be affected.

# WHAT'S THE DEAL ON APR?



APR or the Annual Percentage Rate is basically the annual cost of the loan to you, the borrower. APR is applied to your balance to calculate the interest you owe or your finance charge. Different types of balances, such as cash advances or balance transfers can have different APRs.

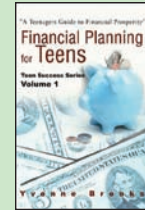
Over time, your APR may change for a number of reasons. Some changes depend on your behavior and others depend on market conditions. Under the new CARD Act, increases will only apply to new balances unless otherwise stated at account opening

or if you are more than 60 days late on a payment. The legislation will also prohibit interest increases during the first 12 months and require promotional rates to last at least six months.

**Make sure you understand your APR and all of the terms of your credit card before using it. If you are unsure or have questions about something, ask.**

## Check Out These Books!

Visit your local library or bookstore ...



### **A Teenager's Guide to Financial Prosperity**

By Yvonne Brooks

This book explores ways to manage your money responsibly and outlines what it really takes to secure your financial future. The book's content covers: setting financial goals, preparing for college, developing a teen financial portfolio, putting together an annual budget, calculating net worth and other strategies to help you become more successful in life.



### **Myth-taken Identity**

by Robert Asprin, Jody Lynn Nye, Phil Foglio

This is a mystery about a boy accused of not paying his credit card bill, but the only thing he is guilty of is having his identity stolen.

The boy and his friend set out to clear his name and recover his identity.

## Click Your Mouse Here

[www.ftc.gov/idtheft](http://www.ftc.gov/idtheft)

Use this website as a one-stop-shop for all things identity theft. The site offers information on how to deter, detect, and defend yourself against identity theft.

[www.controlyourcredit.gov](http://www.controlyourcredit.gov)

The Bad Credit Hotel, an online game from the U.S. Treasury Department, is designed to educate young consumers on credit and managing their finances responsibly. Instructions for playing are available online. The game also is available in Spanish.

## Don't Get Phished!

Did you know that your creditor or bank will never e-mail you a request for information that they should already have, like an account number or password? Be cautious of e-mails requesting you to sign-in using a link provided in the message or asking for personal information. If in doubt, contact your bank first.



The ABA Education Foundation, a non-profit subsidiary of the American Bankers Association, is committed to developing and providing education programs that lead to financial literacy. Visit us on the Web at [www.abaef.com](http://www.abaef.com)

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