Different Types Of Credit

Financial Literacy

Learning Goals

I can identify the different types of credit: Revolving Credit, Installment Credit, Secured vs Unsecured Credit

I can identify examples for each

Essential Question

What types of credit are crucial for young individuals' financial knowledge and decision-making?

Vocabulary

Collateral

Credit Limit

Minimum Payment

Interest Rate

Vocabulary

Collateral: An asset or property pledged by a borrower to secure a loan or credit, which can be seized by the lender if the borrower fails to repay the debt.

Credit Limit: The maximum amount of credit that a lender is willing to extend to a borrower, which should not be exceeded to avoid additional fees or penalties.

Minimum Payment: The smallest amount a borrower must pay each month to keep their account in good standing, usually calculated as a percentage of the outstanding balance.

Interest Rate: The percentage of the loan amount or credit balance that is charged as interest over a specific period, typically expressed on an annual basis.

Revolving Credit

01 Definition

Credit that allows borrowers to repeatedly borrow up to a certain limit as long as they make regular payments.

02 Examples

Credit Cards, Lines of Credit

03 Explanation

When you open a revolving credit account, such as a credit card or a line of credit, the lender assigns you a credit limit. This is the maximum amount of money you can borrow.

Debt is something, usually money, that is owed by one person to another.

When you borrow money to pay for something you want or need, you take on debt.

Installment Credit

01

Definition

Credit that involves borrowing a specific amount and repaying it in fixed monthly installments over a predetermined period.

02

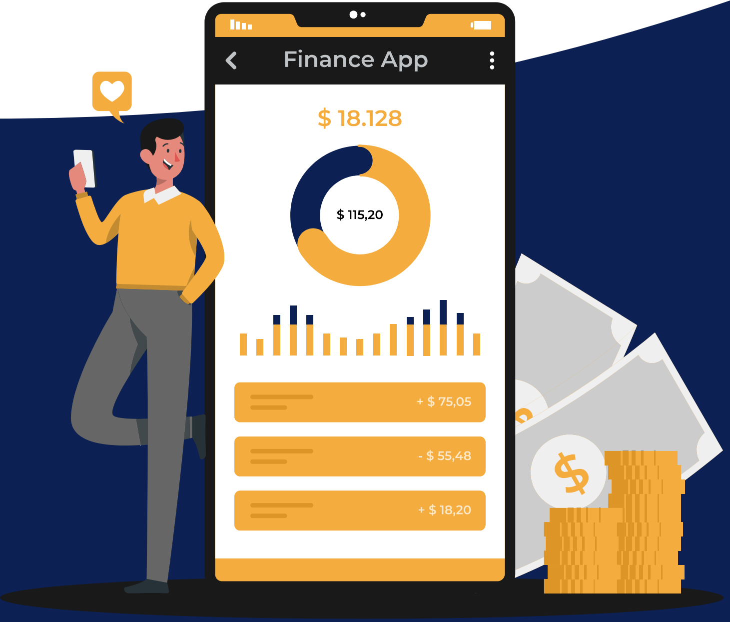
Examples

Auto Loans, Student Loans, Mortgages, Personal Loans.

03

Importance

Installment credit is important because it allows individuals to make significant purchases or investments, such as buying a car or financing education, without having to pay the full amount upfront.



Secured Vs Unsecured Credit

Differentiating between unsecured and secured credit is essential for informed financial decision-making and tailoring credit choices to individual circumstances and risk tolerance.

Secured Credit

Secured credit cards are a type of credit card that requires a cash deposit as collateral, serving as a security for the credit limit.

- Secured Credit Card
- Personal Loan
- Auto Loan

Secured credit cards are designed for individuals with limited or poor credit history, providing an opportunity to build or rebuild credit.

Unsecured Credit

Unsecured credit refers to a type of credit that does not require collateral or any form of security.

- Credit Cards (Unsecured)
- Student Loans
- Mortgage

If borrowers fail to make payments on unsecured credit, they may face penalties, increased interest rates, collection efforts, and negative impacts on their credit score.

More Information

More Resources

Types of Credit - List of Top 8 Types of Credit with Explanation (wallstreetmojo.com)

Credit: What It Is and How It Works (investopedia.com)

How Types of Credit Affect Your Credit Scores | Credit Karma

Bank Credit: Definition, How It Works, Types, and Examples (investopedia.com)

Types of Letters of Credit (investopedia.com)