

## Personal Management

### Question

- If you were offered \$1,000 today or \$1,000 one year from now, which would you choose? Why?

## Borrowing Money

- The opposite of investing is borrowing.
- Instead of investing money and earning interest, you borrow money and have to pay interest.
- APR = Annual Percentage Rate
  - The true interest rate that you pay to the bank, stated as a yearly percentage of the loan amount. Additional fees are added to the loan amount to calculate the APR. Often the APR is higher than the stated interest rate because of the additional fees.
  - Example:
    - Borrowed amount = \$9,000
    - Fees = \$1,000
    - Total = \$10,000.
    - So even though you borrow \$9000, the APR will be based on \$10,000.

## Borrowing Money

- Shop around
- Compare the annual percentage rate (APR)
- Ask what the total cost of the loan will be
- Find out the amount of all fees
- Don't always choose the loan with the lowest payment
- Ask if there is a charge for paying off the loan early

## Borrowing Money

- The bank will check on you too
  - Ask for references
  - Check your credit history
    - If you've taken out loans before, have you paid back the money on time
  - Ensure you can pay it back
    - Steady income

## Borrowing Money

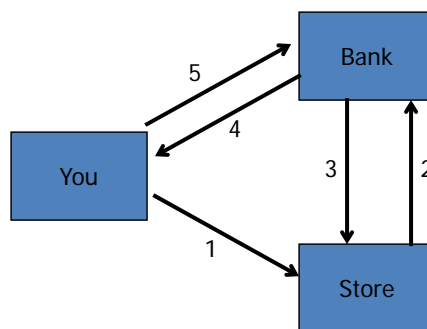
- If you don't make payments each month, and you don't try to pay as much as you can, compound interest works *against* you!

## Credit Cards

- Using a credit card is just like taking out a loan
  - only easier.
  - Good: convenient, avoids the need to carry lots of cash
  - Bad: it's so easy to buy expensive items and then you may not be able to pay for them

## How Credit Cards Work

1. You purchase item with credit card.
2. The store swipes the card to see if you have a good credit history.
3. The store receives payment from the bank.
4. The bank sends you a credit card statement with the purchase amount.
5. You pay the bank for the item you purchased.



## Credit Card Interest – Beware!

Dollar Amount Charged	Minimum Payment	Interest Charges	Number of Monthly Payments	Total Number of Years
\$100	\$10.00	\$9.16	11	0.92
\$500	\$10.00	\$365.00	84	7
\$1,000	\$10.00	\$1,115.00	153	12.75
\$5,000	\$10.00	\$7,115.42	313	26
\$10,000	\$10.00	\$14,615.00	382	32
\$50,000	\$10.00	\$74,615.00	542	45

## Credit Card Interest – Beware!

Dollar Amount Charged	Minimum Payment	Interest Charges	Number of Monthly Payments	Total Number of Years
\$100	\$10.00	\$9.16	11	0.92
\$500	\$10.00	\$365.00	84	7
\$1,000	\$10.00	\$1,115.00	153	12.75
\$5,000	\$10.00	\$7,115.42	313	26
\$10,000	\$10.00	\$14,615.00	382	32
\$50,000	\$10.00	\$74,615.00	542	45

Dollar Amount Charged	Minimum Payment	Interest Charges	Number of Monthly Payments	Total Number of Years
\$1,000	\$10.00	\$1,115.00	153	12.75
\$1,000	\$25.00	\$539.00	62	5.2
\$1,000	\$50.00	\$198.00	24	2
\$1,000	\$100.00	\$91.62	11	0.92

- Pay more than the minimum amount each month.
- Compound interest is working against you.