

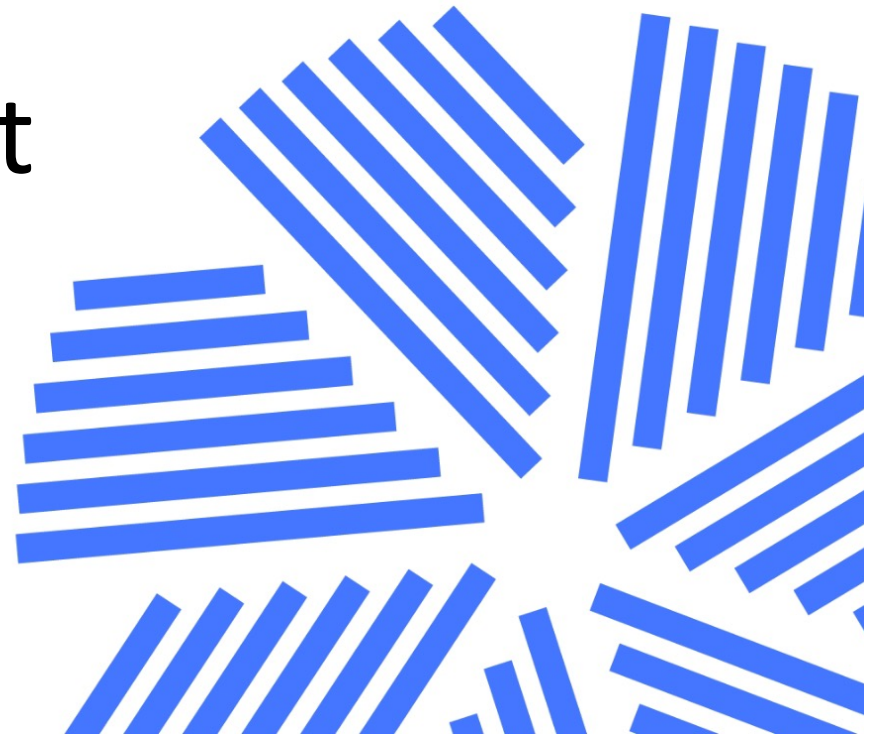


# Understanding Borrowing and Credit

[Presenter name]

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[Date]



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## CFA Society Boston

- Non-profit professional society of over 6,000 investment professionals
- New England's largest investment professional membership organization
- Founded in 1946, CFA Society Boston is a founding society of CFA Institute.



## CFA Institute

- Global association of investment professionals
- Sets the standard for professional excellence and credentials
- Champions ethical behavior in investment markets
- Respected source of knowledge in the global financial community



# Speaker Biographies

Speaker  
Photo  
(Optional) [First, Last], CFA ...

Speaker  
Photo  
(Optional) [First, Last], CFA ...

Speaker  
Photo  
(Optional) [First, Last], CFA ...



# Session Goal – Understanding Borrowing and Credit

## AGENDA

 An Overview of Credit and Borrowing

 Types of Loans / Borrowing Options

 Credit Scores

 Credit / Borrowing: Important Issues



*Image from Pexels*

# Overview of Credit and Borrowing



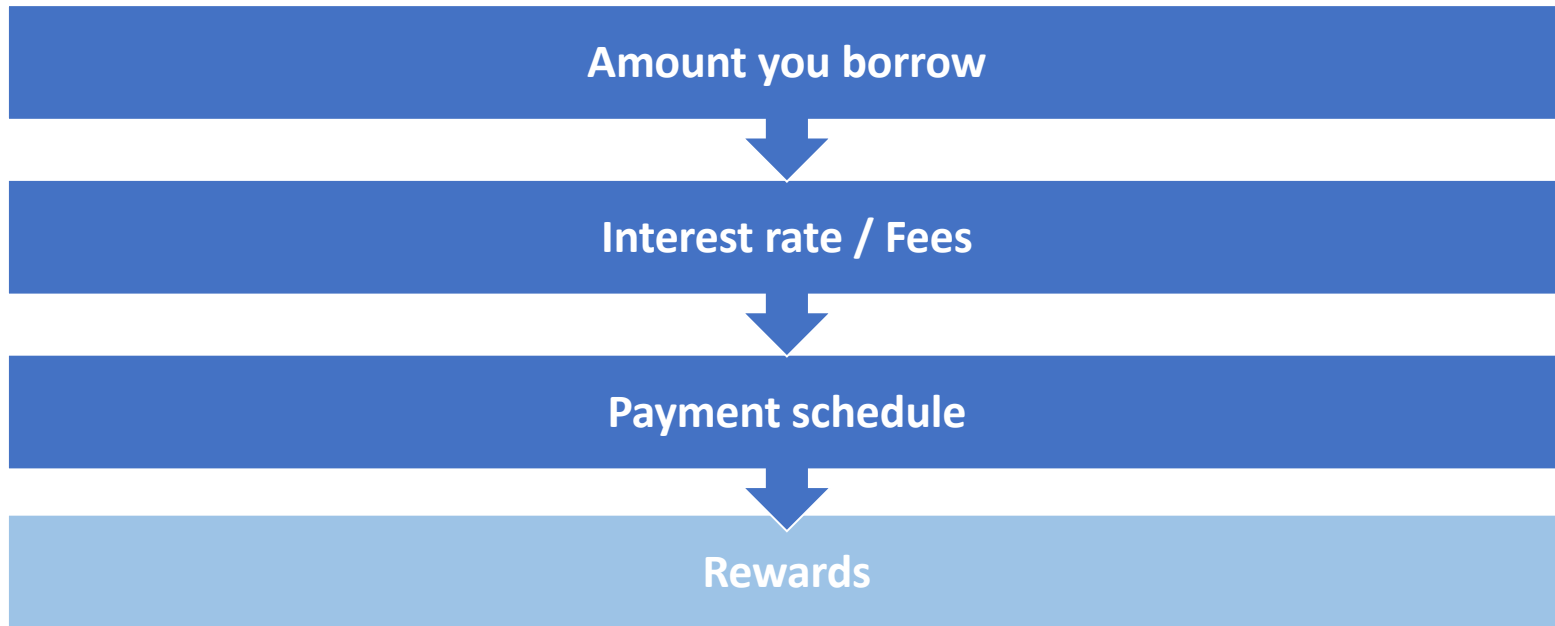
# What is Credit?

The ability of a **customer** to obtain the goods or services now by promising to pay (1) the cost **plus** (2) a borrowing fee in the future.



Image by Rupixen from Pixabay

# Key Aspects of Credit and Borrowing



# What affects the interest on a loan?



Image by Mediamodifier on Pixabay

U.S. Federal Reserve Bank's monetary policy

Inflation

Secured vs. unsecured borrowing

Credit score

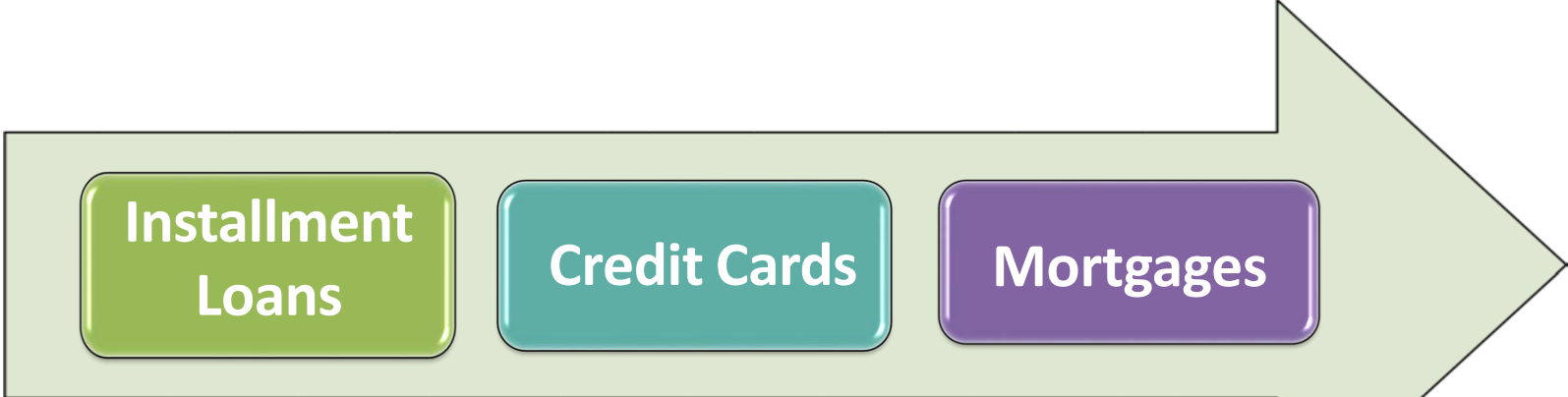
Income and cash flow

Savings

# Types of Loans / Borrowing Options



# Common Types of Borrowing

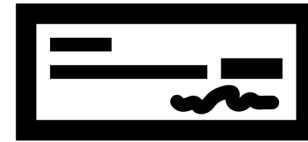


# Installment Loans - Secured

Secured by an asset



Auto loans, mortgages,  
pay day loans



# Installment Loans - Unsecured

**Does NOT require an asset to back it**

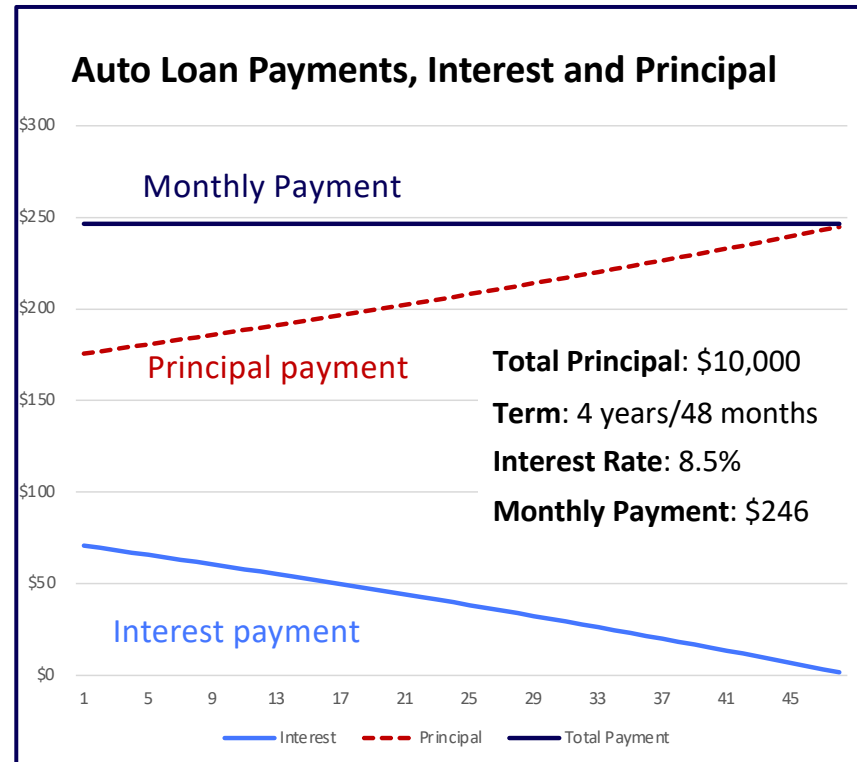


**Credit cards, retail store cards, loans from a family member, buy now pay later (BNPL) loans**



# Installment Loans – Fixed Rate

- Level monthly payments
- Principal payment increases over time and interest payment shrinks
- Bankrate.com Calculators



# Credit Cards

Credit cards are different from debit cards and pre-paid cards

Wide array of options available

- Secured cards
- Student cards
- Becoming an authorized user on your parents' card
- Rewards cards
- Retail store cards

Compare Credit cards at [www.creditcards.com](http://www.creditcards.com)



# Credit Card Features

## Revolving credit & Credit limit

- ✓ Flexible payment; minimum payment
- ✓ Build credit record
- ✓ Qualify for rewards/benefits
- ✓ Wider use (shopping, utilities, gas)
- ✓ Robust fraud protection (maximum liability \$ 50)
- ✓ Can consolidate charges; easier to track
- ✗ Fees (annual, late payment)
- ✗ Requires hard credit check
- ✗ Interest charges add up if balance is not paid in full each month. Interest rates are typically in the high teens or 20%+

# Buy Now Pay Later (BNPL) Features

- ✓ Installment loan
- ✓ Pay in equal installments (first installment due at checkout)
- ✓ May be offered interest-free
- ✓ Application online; approval without a hard credit check
- ✗ Offer is retailer-specific
- ✗ High penalties for late or non-payment
- ✗ Installment amount / schedule makes it less flexible
- ✗ Not consolidated; can easily lose track

## Resources

\*Point of sale retail lenders\* (Affirm, Afterpay, Klarna, etc.)

\*<https://www.nerdwallet.com/article/loans/personal-loans/loan-at-checkout>



# Pay Day Loans

- Short-term cash advance against your next paycheck via draft against your checking account
- High fees - \$15 Fee for every \$100 borrowed. This equates to a very high interest rates – 400% APR for a 2-week loan
- **Not legal** in Massachusetts
- Loan of last resort



Photo by [Jeremy Bishop](#) on [Unsplash](#)

# Credit Scores



# Credit bureaus/agencies

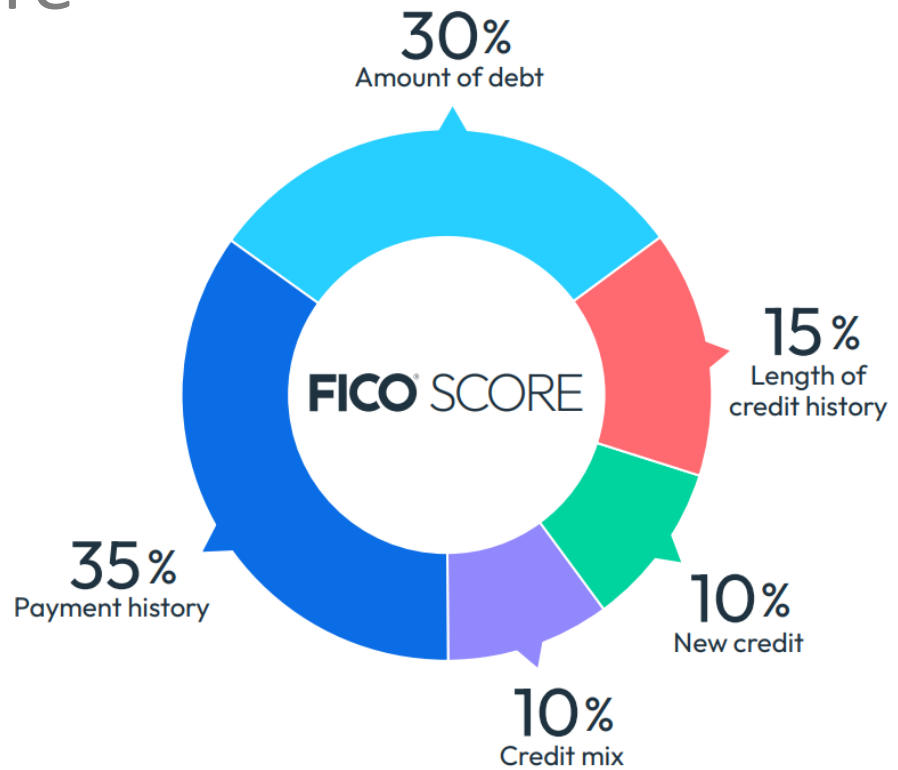
- Collect information on individual borrowing and bill paying habits & credit information
- Major US Consumer Reporting Agencies in the US:
  - Equifax ([www.equifax.com](http://www.equifax.com))
  - Experian ([www.experian.com](http://www.experian.com))
  - TransUnion ([www.transunion.com](http://www.transunion.com))
- The US Government created the Consumer Financial Protection Bureau (CFPB) in the aftermath of the 2008 financial crisis *“to make sure banks, lenders and other financial companies treat you fairly”* [www.consumerfinance.gov](http://www.consumerfinance.gov). This law allows you to access your credit report



# Factors in a FICO score

- Weightings may differ on an individual basis.
- For individuals with little credit history, more weight may be placed on their credit mix.

Source: [Understanding FICO Scores \(myfico.com\)](https://myfico.com)

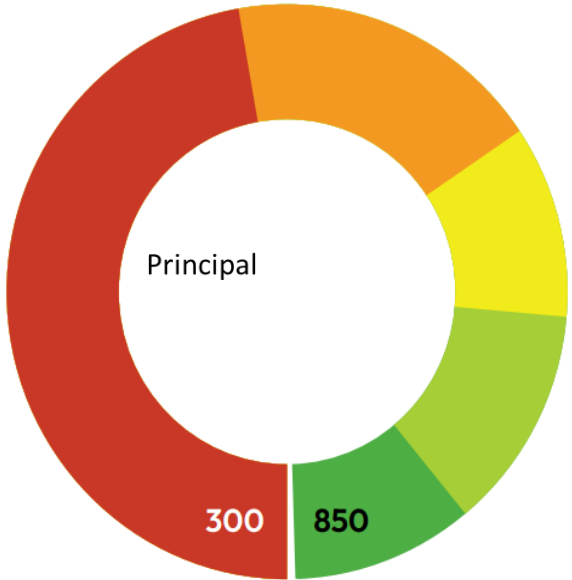


# What does your Credit Score mean?

Higher is better

Higher FICO Scores demonstrate lower credit risk.

Lower FICO Scores demonstrate higher credit risk



Poor	< 580
Fair	580-669
Good	670-739
Very Good	740-799
Exceptional	800+



Source: [Understanding FICO Scores \(myfico.com\)](https://myfico.com)  
CFA Society Boston Financial Literacy

# Who determines your Credit Score?



Who determines your Credit Score?

**YOU DO!**



# Factors that do NOT go into a Credit Score

- Your race, color, religion, national origin, sex or marital status
- Your age
- Your salary, occupation, title, employer, date employed or employment history
- Where you live
- Certain types of inquiries such as promotional, account review, insurance or employment related inquiries
- Any information NOT found in your credit file
- Any information that is not proven to be a predictive of future credit performance

Source: [MyFICO.com What's Not in Your Credit Score. Accessed March 23, 2026](https://myfico.com/what-is-not-in-your-credit-score/)



# What does your Credit Score mean in \$\$\$

- Borrowers with the best score (Superprime) save **\$57** per month over borrowers in the 601 – 660 range.
  - Or **\$2,733** over 48 months.
- Borrowers with a credit score below 600 may have difficulty getting a car loan

Credit score	Average APR, new car	Average APR, used car	Monthly Payment (New Car)	Total Interest Paid (New Car)
Superprime: 781-850	4.88%	7.43%	\$574.37	2569.96925
Prime: 661-780	6.51%	9.65%	\$592.99	3463.47844
Nonprime: 601-660	9.77%	14.11%	\$631.31	5302.72416
Subprime: 501-600	13.34%	19.00%	\$674.91	7395.86456
Deep subprime: 300-500	15.85%	21.60%	\$706.59	8916.22014
Source: Experian Information Solutions, 3rd quarter 2025. Based on VantageScore credit scoring model.			Calculated in Excel for a \$25,000 48 Month Loan	



# What affects your Credit Score?

Unpaid utility bill sent to a collection agency

Paying a credit card bill late

Not having a college degree

Maxing out credit card limits

Being unemployed

Amount of savings in your bank account

Missing a car lease payment

Your salary

# What affects your FICO Credit Score?



Unpaid utility bill sent to a collection agency



Paying a credit card bill late



Not having a college degree



Maxing out credit card limits



Being unemployed



Amount of savings in your bank account



Missing a car lease payment



Your salary

# How to Improve your Credit Score

## Remove Negative Items

- Report any incorrect information on your credit report
- Pay off late accounts
- Bring down credit card balances that are near or above limit

## Add Positive Items

- Make payments on time
- Apply for one credit card if you do not have one
- Use only a small amount of your credit limit (< 30%)
- Pay off your balance in full

# Credit Score

Establishing an excellent credit score is very important.

Cell phone companies, landlords, insurance companies, employers may access your credit report

Access your free Credit Report every year from each of the 3 credit bureaus ([www.annualcreditreport.com](http://www.annualcreditreport.com)), but Credit Scores are not free.

# Credit / Borrowing: Important Issues



# Establishing Credit

Finance a store purchase with a same-as-cash offer

Get a credit builder loan (borrow a small amount which is deposited at the financial institution until you pay the loan off)

Become an authorized user on a trusted person's account --- check that the financial institution reports to the credit bureaus.

# Establishing Credit

Acquire a retail store card (often easier to acquire than major credit cards)

Get a credit card through the bank where you have your checking account

Acquire a secured or unsecured credit card in your name

# Important Considerations before Borrowing

How steady is your source of income? How much does the loan amount represent of your total earnings?

How much personal debt are you incurring compared to the size of your assets (properties)?

What is the repayment schedule? Can you meet the monthly payments, including both interest and principal?

How quickly can you pay off the debt? Is the repayment schedule aligned with your expected cash flow sources?

# Important Considerations before Borrowing

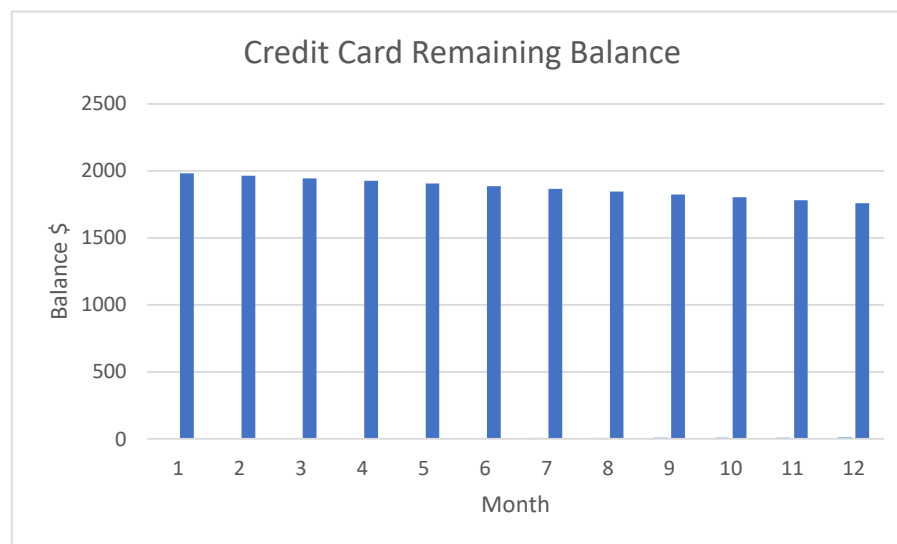
- How much will you be paying in interest charges? At variable or fixed rates?
- Who is the lender? Well known? Reputable?
- Are there other fees involved? (e.g., insurance, tax & maintenance costs in home & auto loans)
- How will this borrowing affect your credit score?
- Read the draft agreements carefully and understand the borrowing terms before signing.

# Use Credit Cards Responsibly

- Pay off your balance in full every month.
- If not, pay the minimum required on time to avoid harming your credit report
- Avoid credit cards with annual fees
- Limit the number of credit cards you use



# What's wrong with paying the minimum on your credit card?

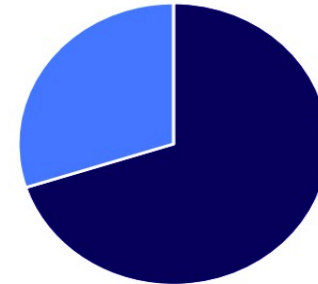


Source: <https://calculator.now/credit-card-calculator/>

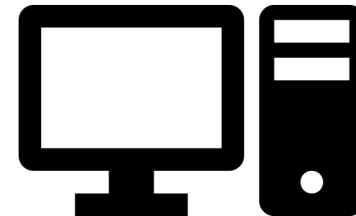
- Buy a **\$ 2,000** home theater in January using a credit card at **18.99%** interest
- Pay the **\$ 50** minimum payment every month starting in February
- After one year, your balance is still high at **\$ 1,760** and you have paid **\$ 360** in interest.
- At this rate of payment, it will take over 5-years to pay off the card balance, and you will have paid almost **\$ 3,200** in interest and principal payments.

# Use Credit Cards Responsibly

- Keep your credit usage < 30% of your limit
- Never finance anything beyond its useful life
- Keep your credit card open even if you don't intend to use it (make one small purchase a year)





Borrow under 30% of your limit



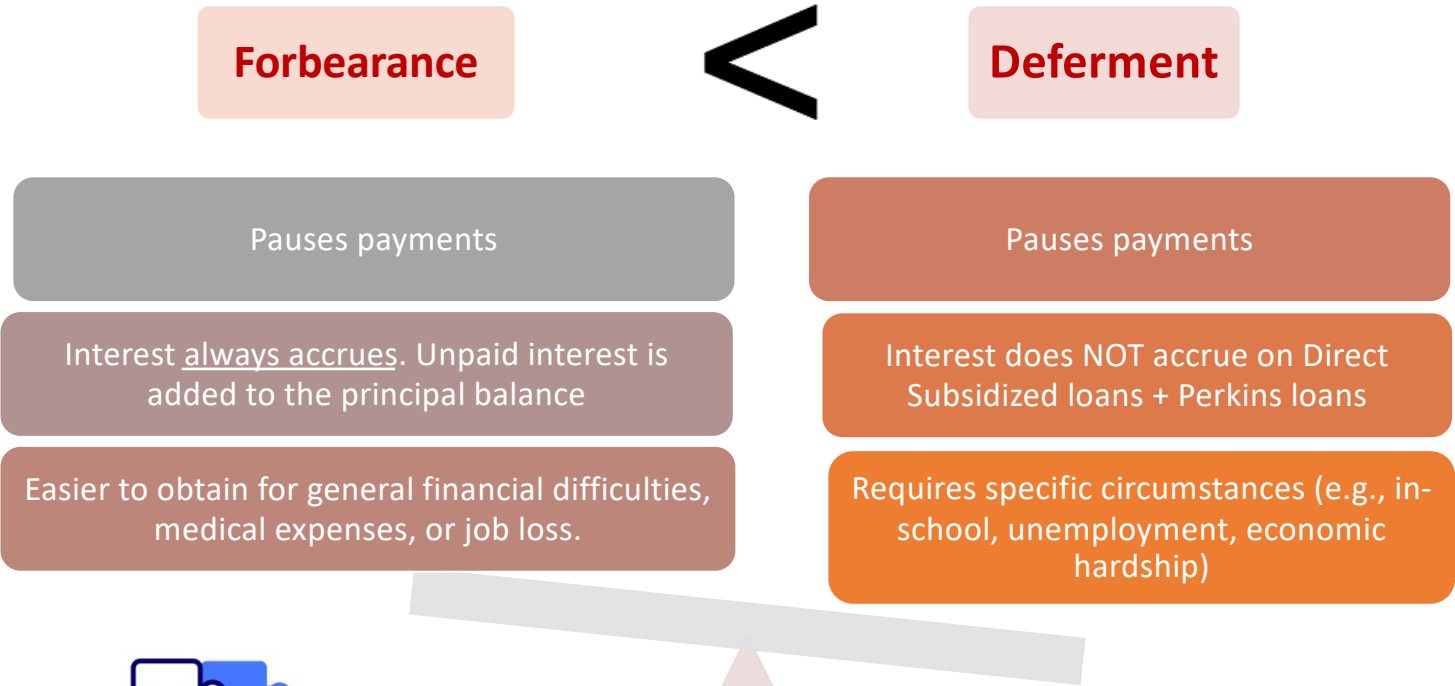
PCs have a useful life of ~3 years

# Pros & Cons of Credit Cards

	
<b>Able to buy needed items <i>now</i></b>	<b>Pay interest</b>
<b>Don't need to carry cash</b>	<b>Impulse buying</b>
<b>Build credit</b>	<b>Too much borrowing can lead to financial problems</b>



# Student Loans: Forbearance vs Deferment



# References

<https://www.nerdwallet.com>

<http://www.myfico.com>

<https://bankrate.com>

<https://www.fidelity.com/mymoney>

<https://studentaid.gov>

<https://ftc.gov>

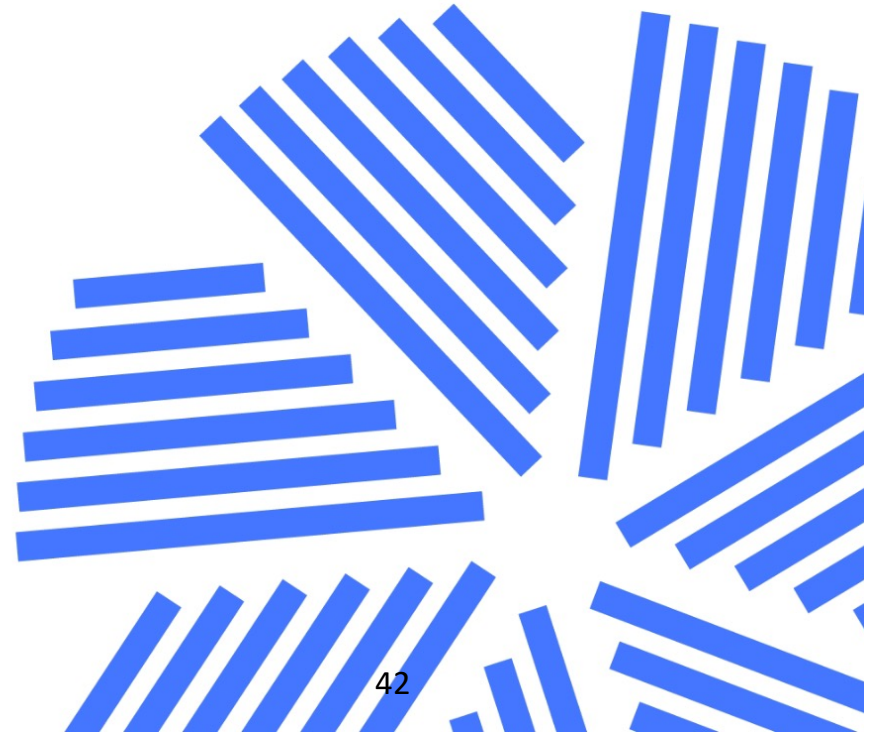
<https://www.consumerfinance.gov/>





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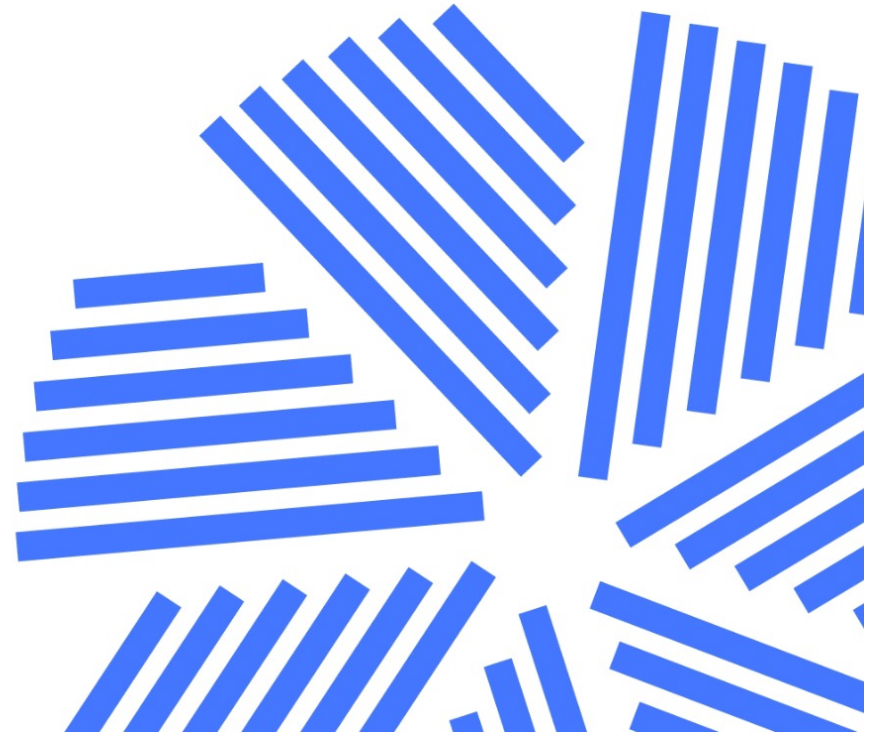
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## Who We Are

CFA Society Boston is dedicated to putting investors first and raising ethical standards within the investment profession. We unite Boston's investment community and provide a forum for collaboration, education, and innovation. Originally called the Boston Security Analysts Society, Inc., we are a non-profit professional society founded in 1946. In 2017, we became CFA Society Boston. More than 6,000 investment professionals locally and globally are members of CFA Boston, representing over 650 investment firms. 96 percent of CFA Boston members hold the Chartered Financial Analyst designation from CFA Institute.

## Our Financial Literacy Mission

This community outreach program aligns with non-profit groups to reach a wide variety of audiences, from late high school onward. Since its inception in 2014, the initiative has touched thousands of people, partnered with over 30 organizations, and currently has over 30 active volunteers. This community outreach program makes valuable financial literacy content available to the general investing public through collaboration with our alliance partners. The initiative addresses issues such as Personal Finance, Basics of Investing, Retirement, Bonds vs. Equities, Choosing a Bank, and more.

## How it Works

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## How to Partner with the CFA Society Boston Financial Literacy Program

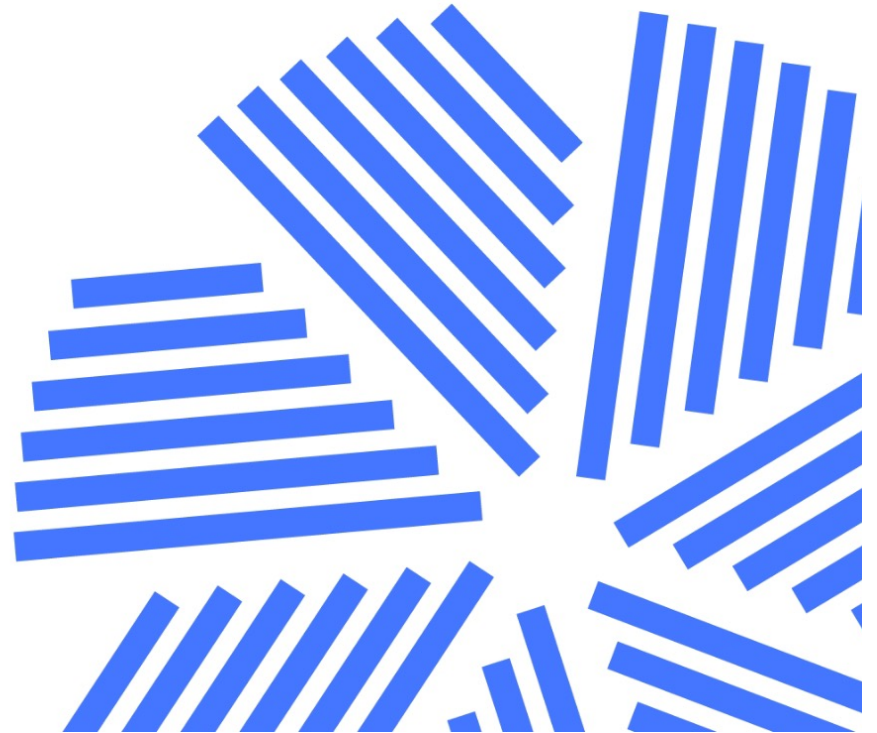
### What CFA Society Boston Commits To

- Provide neutral, expert presenters
- Set up and present topics
- Supply the presentation / activity
- Bring a laptop and materials
- Be experienced in presenting in-person and in a virtual setting

### What Your Organization Commits To

- Provide the audience and venue, either in-person or virtual
- Promote the event onsite, local newspapers and website
- Make a projector or USB connection available
- Briefly introduce presenter(s) Complete a post offering survey

For more information on how CFA Society Boston can partner with you visit [www.cfaboston.org/financialliteracy](http://www.cfaboston.org/financialliteracy) or email [finlit@cfaboston.org](mailto:finlit@cfaboston.org).





## PRESENTATION INFORMATION

Alliance Leader(s):

Date of Offering:

