1. Go to MoneySmart’s ‘[How different types of credit work](https://moneysmart.gov.au/student-life-and-money/credit-and-debt)’ and summarise each of the types of credit listed in the table below.

|  |  |
| --- | --- |
| **Type of credit** | **Summary** |
| **Credit cards**  *\*In addition to the information listed, note that credit cards charge interest on overdue repayments.* |  |
| **Buy now pay later** |  |
| **Personal loans** |  |
| **Interest-free deals** |  |
| **Rent to buy** |  |
| **Payday loans** |  |

1. To better understand the cost of credit, it is essential that you recognise how [interest](#interestdefinition" \o "The amount that a borrower pays for the use of the lender’s money.) rates, [fees](#feedefinition" \o "An extra amount of money that must be paid if a payment is made after a certain date or time limit) and [charges](#chargesdefinition" \o "A penalty charge in addition to the regularly scheduled payment, as of a loan, if such payment has not been made when due.) relate to credit.

**Scenario 1 – Credit card**

Georgie has a credit card with **$2,000** owing at an interest rate of **19.74%**. He’s unable to repay this amount in full and decides to just make the minimum payment each month until the debt clears.

Use the MoneySmart [calculator](https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/credit-card-calculator) to complete the table.

|  |  |  |
| --- | --- | --- |
| **Question** | **Minimum repayments** | **Higher repayments** |
| **Monthly repayment amount (first month decreasing for minimum repayments)** | *Look for first month amount (decreasing) on the graph.* | *Look for monthly amount under the ‘Higher repayments’ graph heading.* |
|  |  |
| **Total interest paid** |  |  |
| **Total amount repaid** |  |  |
| **Time taken to repay** |  |  |

**Scenario 2 – Personal loan**

18-year-old Rhonda has taken out a secured personal loan to buy her first car, a three-year-old Mazda 2 hatchback. The loan is for **$7,500** paid off **monthly** over **five years** with an interest rate of **5.49%** and monthly fees of **$5**.

Use the MoneySmart [calculator](https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/personal-loan-calculator#!how-much-will-my-repayments-be) to complete the table.

|  |  |
| --- | --- |
| **Question** | **Answer** |
| [**Principal**](#principaldefinition) |  |
| **Monthly repayment amount** |  |
| **Total interest + fees paid** |  |
| **Total amount repaid after five years (Principal + Total interest)** |  |
| **Do you think it’s worth paying that amount of interest? Explain.** |  |
| **Use the average depreciation rate in the** [**Car Depreciation Calculator**](https://goodcalculators.com/car-depreciation-calculator/) **to calculate approximately how much Rhonda’s car will be valued at after 5 years.** |  |

Use the [Savings Goal Calculator](https://www.thecalculatorsite.com/articles/finance/how-long-will-it-take-me-to-save.php) to find out how long would it have taken Rhonda to save $7,500 for her car, with a starting balance of $0, saving $300 per month at 2% interest?

|  |
| --- |
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**Start saving now, develop a plan and put it into action and you can buy something you want, such as a car, WITHOUT having to pay interest.**

**Scenario 3 – Buy now, pay later:**

Afterpay is an example of ‘buy now, pay later’ credit. Each Afterpay transaction is broken up into 4 x fortnightly repayments.

Despite their advertising, Afterpay is not necessarily free, especially if you don’t make the repayments on time!

Each year, Afterpay makes millions of dollars ($68.8 MILLION in 2020) from late fees and charges from people who miss one or more of these repayments. Two such charges:

* For purchases *under* $40: $10 penalty for each fortnightly repayment payment missed per transaction.
* For purchases *over* $40: 25% of the transaction amount OR $68 (whichever is less).

Whitney is out shopping at the mall with her friends. She doesn’t have any spending money available, but she does have an Afterpay account, enabling her to buy now and pay later.

Complete the table below. Whitney makes the following three Afterpay transactions:

* *Store 1:* Shoes, $120
* *Store 2:* Hair products, $35
* *Store 3:* Phone cover, $20

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Store** | **Item** | **Purchase amount** | **Fortnightly repayments** | **Extra charges if one payment is missed** |
| **1** |  |  |  |  |
| **2** |  |  |  |  |
| **3** |  |  |  |  |
| **Total:** |  |  |  |  |

1. In the future, what is one thing you believe will be difficult for you to be able to purchase without accessing credit? Why?

|  |
| --- |
|  |

1. In Australia, children and teenagers under 18 years of age are not legally permitted to have credit cards in their own name. Should this law stay as-is, or should it change? Explain.

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|  |