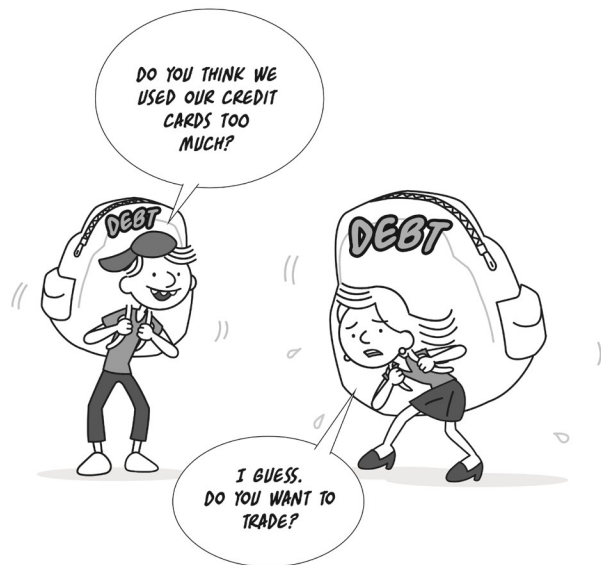


C. The Not So Great Things About Credit

Even though credit benefits a lot of people, credit can also be harmful. Remember that everything you buy with credit has to be repaid with interest at some time in the future. That time in the future is specific, not just anytime you want to pay it back; there are deadlines. Not using credit correctly can cause a situation in which debts get too big and out of control.



Overspending—using more money than you should

Bankruptcy—a situation in which a person or business is legally declared as not able to pay back debts

Forgiving—cancelling all or some of the debt

Credit report—a summary of the person's credit history, usually used to evaluate a person's credit standing

Because you have to pay interest for using the money you borrowed, what you owe (your debts) could pile up faster than you can repay them. **Overspending** can put borrowers in a position where they can hardly keep up with the payments. When they don't pay what they owe on time, it can result in a loss of valuable properties such as the house and the car. So if you use your credit card and you don't pay the money back on time and in full, then you can get in big financial trouble. Failing to pay loans can destroy the borrower's good reputation. There are many times when spending too much and managing credit poorly causes a breakdown in family relationships. In some countries, failure to pay back loans is punishable by jail time. In many countries, a person with unmanageable debt might be forced to declare **bankruptcy**.

Bankruptcy is when a person or a business is no longer able to repay the debt he or she owes. Bankruptcy offers an individual or a business a chance to start fresh by **forgiving** the debts that can't be repaid. In the United States, bankruptcy can only be granted by a judge in a state or federal court; you have to go to court to get approval to declare bankruptcy.

Although bankruptcy wipes away most debts, declaring a bankruptcy has long lasting bad effects. Since bankruptcy will be reported in your **credit report**, it could keep you from getting new loans, or it may increase the interest rates that you will need to pay to get a loan. Filing a bankruptcy involves a complicated and expensive process which will take time away from school,

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work, and family. Also, bankruptcy can interfere with getting a new or different job. Employers can investigate credit reports before making job offers. A bankruptcy on your credit report may push the employers to offer the job opportunities to other possible employees who have shown greater responsibility with managing their personal finances.