MONEY CONFIDENT Kids®
Presented by T. Rowe Price®

Decision-Making

LESSON 2

Decision-Making
An important step in making wise financial decisions is understanding the relationship between spending practices and achieving financial goals.

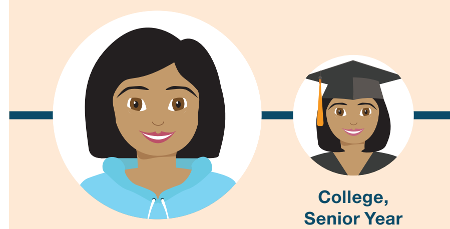
A Penny Saved…

Wow, time flies! I'm at Grace Hopper State University and already in my second year of a software engineering program on a partial academic scholarship. I also have a part-time job at Batt Software. I'm making $14,000 a year. I use that money to help pay college costs and living expenses, plus I save part of every paycheck. I just checked my savings account, and I have a whopping $6,500!

I need to buy a car soon, a purchase with a **short-term time horizon**, so I can commute to work, but I also want to make sure I still have some savings for other goals.

While I'm shopping around for the best deal, I wonder if I'll have to take out a car loan. With a **loan**, I'd make a cash payment for part of the cost (called a **down payment**), then pay the rest, a bit each month, over several years. I learned that there are pros and cons to taking out a car loan. A loan helps people buy an expensive item immediately rather than wait months or years while they save for it. But, in addition to the amount of your purchase, a loan adds **interest** charges each month—a charge for borrowing the money. Over a four- or five-year loan, interest charges can add hundreds or thousands of dollars to the cost. For example, if I borrowed $10,000 for five years at 7% interest, my total payments would add up to $11,186.

Deciding to use a **credit card** or take out a loan from a bank is an important financial decision. If you have time to save for your goal, that is usually the best option, but sometimes, purchasing on credit is necessary.

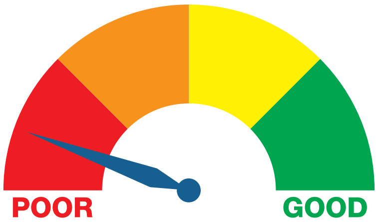


College, Sophomore Year

College, Senior Year

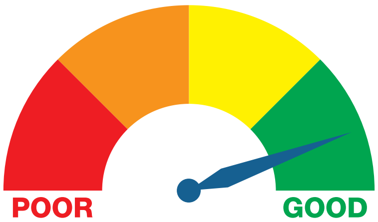
Mom said that I also need to establish a good **credit rating**. A credit rating is a number based on your history of paying back loans. If I make my payments on time, I'll get a higher credit rating and it will be easier for me to get a loan when I want to borrow again, like to buy a house or go to graduate school. If I mess up by not making my payments on time, I'll end up with a bad credit rating and it will be harder for me to borrow money in the future (and I might even have to pay a higher interest rate).

POOR CREDIT RATING



- Miss payments
- Hard to borrow money
- Higher interest rate

GOOD CREDIT RATING



- Make all your payments
- Easier to borrow money
- Lower interest rate

WHAT'S THE

Big Idea?

If you need to take out a loan to help you pay for expensive things, you have to consider interest costs. You must make payments on time to keep a good credit rating.