
Let's Jump In!

CHAPTER 1

Introduction to Personal Finance

This chapter introduces the topic of personal finance, explores the evolution of credit and consumerism in America, and highlights the importance of both knowledge and behavior when it comes to managing your money.

LESSON 2

A History of Credit and Debt

LESSON VIDEO GUIDE

Get into the habit of taking care of your finances now and do your future self a favor. —Dr. John Delony

GUIDED NOTES

While you watch the video, complete the section below.

1. Take ________________ off the table.
2. Have a ________________________ account.
3. Start _____________________________ early.

ANALYZE AND REFLECT

After you watch the video, respond to the question(s) below.

1. Write down three key takeaways from the History of Credit in America segment.

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2. Now that you've learned about the history of credit and debt in America, how does this impact the way you think about money? What will you do differently as a result?

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LEARNING OBJECTIVE

Understand the evolution of America's dependence on credit.

MAIN IDEA

Using credit and being in debt have become accepted money behaviors. It hasn't always been like that—and you don't have to live this way.

How Did We Get Here?

What if we told you it wasn't long ago that using credit, or borrowing money to buy things, was frowned upon in the United States? We're not kidding! It was even illegal in many cases.

Credit and debt are part of our culture. Today, 83% of American adults have at least one credit card.[5] That's because credit companies spend a lot of money to convince us that credit is the normal way to get what we want. Just like companies advertise their new line of basketball shoes, credit card companies, banks, and other lenders promote credit to get us to buy.

WORDS OF WISDOM

Debt is the biggest thief of your financial future.

The result is the huge debt problem we talked about in Lesson 1. Instead of avoiding debt, many Americans now believe debt is a necessary part of their financial lives! That kind of culture shift doesn't happen overnight. So, how did we get here?

Credit As We Know It

Prior to 1920, the only way for banks to make money by loaning money was to charge sky-high **interest rates**. But that was illegal, so most banks stayed out of the credit business.

Loan sharks were individuals and small organizations that offered credit—also with incredibly high **interest**—to people in desperate financial situations who had nowhere else to turn. These shady, illegal operations were not socially acceptable. But today, we don't think twice about carrying a credit card that charges 21% interest. What a difference a century makes!

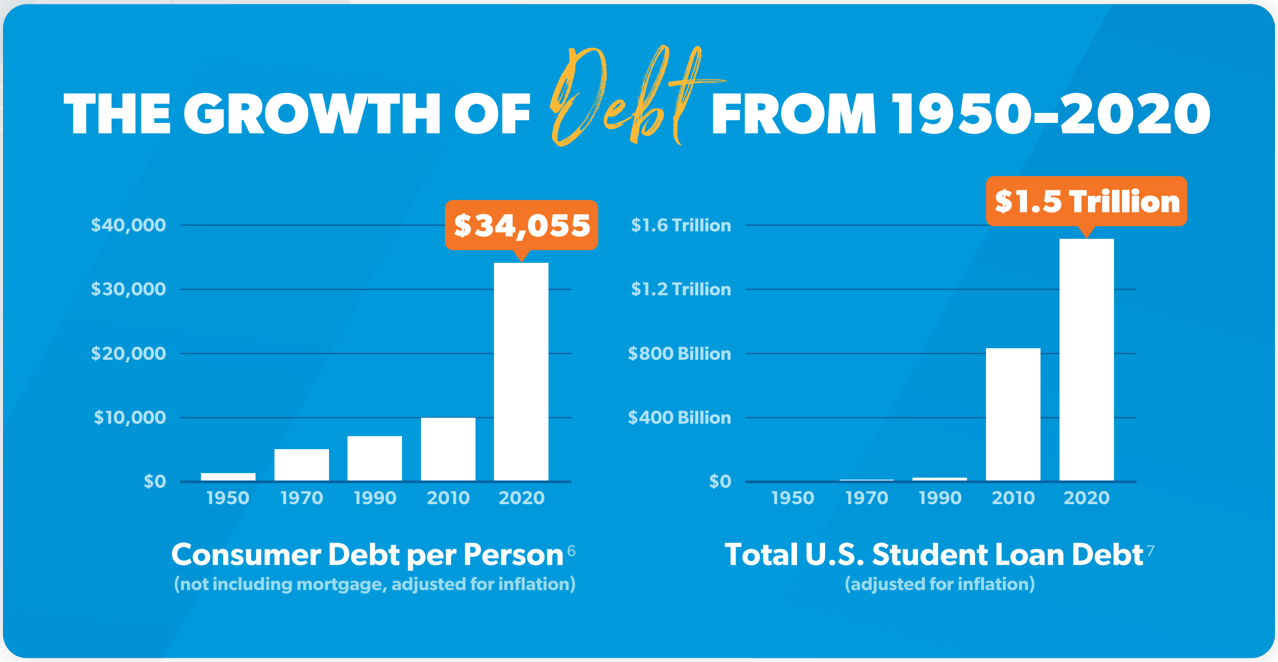
After World War I, the country entered "the Roaring Twenties," a decade-long economic boom. Americans wanted the new, mass-produced products—like home appliances and cars—but they didn't always have the money. Because of the demand, credit laws were relaxed and lending became profitable for banks. The average person could get credit without turning to loan sharks, so buying on credit became more socially accepted—though not as much as it is today. This was the beginning of what we now know as the credit industry.

Credit: the granting of a loan and the creation of debt; any form of deferred payment

Interest Rate: the percentage of principal charged by the lender for use of its money

Loan Shark: person or entity that charges borrowers interest rates above an established legal rate

Interest: the additional cost a lender charges for borrowing their money



Going Into Debt

When the stock market crashed in 1929, it launched the country into the Great Depression in the 1930s. Millions of people were out of work, and many people lost everything. President Franklin D. Roosevelt passed the New Deal, a program designed to promote economic recovery and social reform and help working-class Americans get back on their feet.

World War II ultimately helped end the Great Depression by creating a lot of new jobs. As Americans returned to work, the economy strengthened. Once again, people became comfortable with the idea of borrowing money and going into debt.

The chart above shows how Americans have become comfortable with debt. In 1950, the average debt per person was under $1,500 (adjusted for inflation).[8] But now, it's over $34,000 in nonmortgage debt.[9] Keep in mind that back in 1950, credit cards and student loans weren't what they are now.

Did You Know?

In 1924, General Motors launched the General Motors Acceptance Corporation (GMAC) so consumers could finance a car purchase. By 1930, 3 out of 4 cars were bought with car loans.[12]

Credit cards (Mastercard, Visa, and American Express) weren't even introduced to the public until the late 50s. Before that, in 1950, the average credit card debt was *zero*. Now, the national average is $3,366 per person.[10] When you narrow it down to people who actually have credit cards, the average amount of debt rolls up to over $14,900 per family.[11]

Student Loans

In less than 50 years, our national student loan debt has gone from zero to a crisis level of more than a trillion dollars. The turning point was in 1972 when the Student Loan Marketing Association (SLMA, known as Sallie Mae) began offering government-funded federal loans to college students. It was a huge change that made borrowing money to go to college easy—practically automatic.

On the chart, you can see that in 1950, student loans weren't even a blip on the map. In fact, the total debt figure was zero.

But now, the national student loan debt has ballooned to over $1.5 trillion![13] That's absolutely insane!

Today's Reality

So, what's the takeaway? Americans are drowning in debt because they've made debt a "normal" way of life. That much is clear just from looking at the stats and the history of credit and debt in America. The highest debt level is among 45–54-year-olds, with the 35–44 age bracket coming in close second.

Studies show that young Americans—those under age 36—are carrying over $26,000 in debt![14] And how are they racking up all that debt? Mostly from student loans. But like we talked about in Lesson 1, Americans also have a problem with buying way too much stuff. Credit and debt have made all that possible. That's why it's the norm today.

But there's good news! You don't have to continue this cycle and feel like you're drowning in debt. All of this can end with your generation!

WORDS OF WISDOM

Stop and examine your past, your present, and your intentions and values for the future.

It's time to realize that just because debt has become an American norm, that doesn't mean it has to become your reality. You can make the choice to avoid the trap of using credit to buy things!

Did You Know?

For their daily purchases:[15]

54% of Americans prefer to use debit cards.

14% of Americans prefer to use cash.

Your JOURNAL How does understanding the history of credit make you think differently about credit cards and other forms of debt?

REMEMBER THIS Add a ✓ next to the completed learning objective below.

○ You understand the evolution of America's dependence on credit.

THIS LESSON MAKES ME FEEL Circle your response to what you learned.

CONFUSED SURPRISED THOUGHTFUL CONFIDENT