

KEYS TO CREDIT

This leader's guide is designed to accompany the *Keys to Credit* teen guide. The leader's guide includes: learning objectives, background information, discussion questions, activities with accompanying handouts and visuals, a glossary, and a list of additional resources. The background information is meant to prepare instructors to both teach the unit and to provide lecture material to cover with the teens. It is recommended that each teen receives a copy of the teen guide and reads it *before* participating in the activities outlined in this guide.

The purpose of this unit is to inform teens about credit - what it is, how to get it, and how to handle it responsibly. As the use of credit in the teen population spirals upward every year, teens need to be knowledgeable about the positive and negative aspects of using it. As an instructor, you have an opportunity to: provide teens with the information they need to make wise, well-informed decisions; explain to them the gravity of making smart credit choices; and demonstrate the potentially far reaching ramifications of their actions.

BACKGROUND INFORMATION

While teens often view credit as the gateway to financial independence and freedom, they need to be very conscious of how it can powerfully impact their lives. While credit used sensibly can provide opportunities that will improve their lives immensely, such as using it for higher education costs or to purchase a car to get to work in, teens should be aware that credit used without restraint and careful decision making can lead to a disaster that will require years of picking up the pieces.

Overall Learning Objectives

Teens will:

- Define credit as borrowing money with the responsibility of paying it back
- Understand different reasons for using credit
- Understand the costs of credit
- Identify the financial behavior of a creditworthy person
- Illustrate the steps toward obtaining good credit
- Identify different types of credit
- Recognize the features of a credit contract
- Know what information is included in credit reports
- Understand what influences their credit score
- Understand the consequences of bad credit



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Did You Know?



- Credit was first used in Assyria, Babylon, and Egypt 3,000 years ago. (Didyouknow.com, n.d.)
- The first advertisement for credit was placed in 1730 by Christopher Thornton, who offered furniture that could be paid off weekly. (Didyouknow.com, n.d.)
- From the 18th century until the early part of the 20th century, tallymen sold clothes in return for small weekly payment. They were called “tallymen” because they kept a tally of what people had bought on a wooden stick. One side of the stick was marked with notches to represent the amount of debt and the other side was a record of payments. (Didyouknow.com, n.d.)

What is Credit?

Credit is a financial tool that provides the opportunity to get something now and pay for it later. Individuals can borrow money from a lender with the promise to pay it back, usually with interest, based on a signed, legal, and binding contract.

Reasons for Credit

The reasons for using credit vary from person to person. Traditionally, credit was used for larger purchases of goods (e.g., home loan or car loan) or services (e.g., doctor fees or airline tickets). Now, however, credit is also being used more frequently for smaller day-to-day type of expenses (e.g., gasoline or groceries).

There are many advantageous reasons why a person may choose to use credit, such as:

- Establishing a credit history. The proper use of credit in smaller forms can pave the way to qualifying for larger forms in the future.
- Having the use of things now that they couldn't otherwise afford. Many people would never be able to buy a car or home without credit.
- Safety—not having to carry large amounts of cash.
- Convenience—the ability to make hotel reservations or purchase things online or over the phone.
- Accessing emergency funds for unforeseen expenses.
- Consolidating bills into one payment.
- Having a record of purchases.

Costs of Credit

While easy to overlook among the many dazzling advantages of using credit, it is critical that teens know about the costs that may come with it. Depending on the type of credit and the lender who offers it, some potential costs and disadvantages are:

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- The ability or temptation to overspend.
- Credit history damage if credit is not used responsibly.
- Debt commits more income you have not even earned yet.
- Fees:
 - ⇒ Annual Fee—a yearly charge for the privilege of using credit.
 - ⇒ Annual Percentage Rate (APR)—the true measure of the cost of credit. It is the rate of interest charged yearly for borrowing money. The higher the interest rate, the higher the cost of using credit. The APR must be disclosed in advance.
 - ⇒ Finance Charge—the total dollar cost of credit that is charged over a billing period.
 - ⇒ Origination Fee—a charge for setting up a loan.
 - ⇒ Penalty Fees, such as:
 - ◇ Pre-Payment Penalty—a penalty fee for paying off a loan early
 - ◇ Late Payment
 - ◇ Going Over Credit Limit
 - ◇ Bounced Check Fee

The most significant credit cost is interest (APR), which is the “price” of borrowing money. It is critical that teens know that *the longer it takes to pay back the borrowed amount, the more money it will cost them*. To minimize credit costs, teens should always:

- Shop around for the lowest APR possible. Interest rates can vary from 3 or 4 percent to 36 percent or more per year.
- Borrow only an amount that can be realistically repaid.
- Pay more than the minimum monthly payment.
- Pay cash whenever possible.
- Take out a loan for the shortest time possible.
- Pay bills on time.

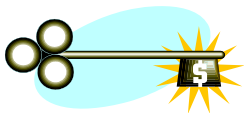
Did You Know?

- Some 40% of American families annually spend more than they earn. (Bannister, 2004)
- Some 1.6 million U.S. households—one of every 73—filed for bankruptcy in 2003. (Bannister, 2004)



- You can easily pay far more in interest for an item than the actual purchase price.





- The key to avoid borrowing more than you can afford, is to have credit payments that *total* no more than 15-20% of annual net income (excluding housing payment, but including credit cards balances, auto loan, student loan, etc.) (Varcoe, 1999)

Steps to Obtaining Credit

Teens may be surprised to learn that obtaining credit isn't a sure thing and requires some effort. Before issuing credit, a lender will examine the financial history of a potential borrower to determine:

- **Character**—trustworthiness to repay the debt.
 - ⇒ Have they used credit before?
 - ⇒ Do they pay bills on time?
 - ⇒ Have they ever filed for bankruptcy?
 - ⇒ Do they live within their means?
- **Capital**—income and assets that can be used if the debt is not repaid.
 - ⇒ What do they own?
 - ⇒ What do they owe?
 - ⇒ What money do they have besides wages?
- **Capacity**—ability to repay the debt.
 - ⇒ What is their salary and occupation?
 - ⇒ How secure is their job?
 - ⇒ Are there other sources of income?

Review the “Obtaining Credit” section on p. 3 of the *Keys to Credit* teen guide for the ways teens can prepare themselves for obtaining credit. While teens cannot receive credit in their name until they are 18, their financial actions today can have a huge impact on whether or not they will qualify for it down the road. From age 18-20 credit applicants must show proof of independent means to repay any debts or have a cosigner in order to obtain credit.

Maintaining Credit

Teens need to remember how important it is to continue doing the things that made them creditworthy, even after they have obtained credit. Review “Maintaining Good Credit” on p. 4 of the *Keys to Credit* teen guide for the different ways to preserve a good credit record.

Types of Credit

There are two types of credit—installment and non-installment. Each type is based on a detailed contractual agreement that is signed by the borrower. The borrower

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1. **Installment Credit**—traditional loans that require making payments in fixed installments (interest is included) until the loan is paid in full. Interest rates on loans are generally lower than those for credit cards, although vary by the type of loan (e.g., student loan, car loan, mortgage loan, or home equity loan).
2. **Non-Installment Credit**—single payment loans or revolving credit.
 - A. **Single Payment Loans**—items and services that are paid for in a single payment, within a given time period, after the purchase. Interest is not usually charged (e.g., utility bills and medical services).
 - B. **Revolving Credit** (also known as open-ended credit).
 1. **Credit Cards**—allow money to be borrowed, up to a designated limit, without terms of how the amount above the minimum monthly payment must be paid back. Interest rates vary greatly by company and the borrower’s credit rating, but are generally higher than the other forms of credit.
 2. **Lines of Credit**—loans that work more like a credit card. The borrower can borrow up to a certain amount for the life of the loan (set by the lender) and during that time can withdraw money as needed. Credit lines have a variable interest rate that fluctuates over the life of the loan. Payments will depend on the interest rate and how much credit was used. As the principal is paid off, the credit revolves and can be used again. Overdraft accounts on checking accounts are an example of a line of credit that teens might have.
 - C. **Paycheck Loans**—a cash loan from a check cashing services in exchange for your future paycheck. There is always a loan fee and the interest is very high.

Student Loan

Credit Card

Home Loan

Car Loan

Home Equity Loan

Line of Credit

Did You Know?



- On average, today's consumer has a total of 11 credit obligations on record at a credit bureau. These include credit cards (such as department store charge cards, gas cards, or bank cards) and installment loans (auto loans, mortgage loans, student loans, etc.). Not included are savings and checking accounts (typically not reported to a credit bureau). Of these 11 credit obligations, 7 are likely to be credit cards and 4 are likely to be installment loans. (MyFico, n.d.)
- The ideal number of credit accounts is 7–8 open accounts. Individuals with no credit accounts or history can't be scored. A more important factor is the amount of debt on each credit line. (Association for Financial Counseling and Planning Education, 2005)
- The length of a credit history is very important. Closing older accounts will lower the credit score. (Association for Financial Counseling and Planning Education, 2005)

Credit Contracts

All credit offers are not created equal! Regardless of the form of credit or who issues it, it is imperative that teens understand the details of a credit contract before signing one. Carefully review “The Credit Contract” on p. 3 of the *Keys to Credit* teen guide to ensure understanding of the various components of a contract and the importance of shopping around and comparing offers before committing to anything.

Credit Reporting Agencies

Reporting agencies, also known as credit bureaus, track histories of loan repayment and use of credit. Credit bureaus gather detailed information to form a report that can be used to determine the creditworthiness of an individual. A credit score can be generated from the information on the report but is not part of the report itself. A credit score is a number based on the information in a person's credit file that shows how likely he/she is to pay a loan back on time. The higher the credit score is, the less risk there is to the lender.

The four kinds of information included in a credit report are:

1. **Identification & Employment Data**—Name(s), birth date, address, social security number, employer, and spouse's name are included. Sometimes it includes: employment history, home ownership, income, and previous addresses.
2. **Payment History**—An account record of payments to various creditors is listed, as well as the past amount of credit that has been extended and how it has been repaid. There also will be information on repossessions, defaults, and bankruptcies.
3. **Inquiries**—When creditors, potential employers, insurance companies, or landlords make inquiries, these are recorded or listed on the credit report. While inquiries remain on your credit report for two years, only the last 12 months are considered in the score. Too many inquiries can be viewed negatively by potential lenders. However, according to Fair Isaac, multiple inquiries that result from rate-shopping for a loan within a 14 day period are counted as one inquiry only.
4. **Public Record Information**—Events that relate to creditworthiness will usually appear on a report. This information may include: deaths, divorces, births, marriages, tax liens, foreclosures, and other legal information.

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It is important that teens understand that a credit report does NOT use the following information to determine credit scores:

- Race
- Gender
- Age
- Area in which you live
- Religion
- Political affiliation
- Medical information
- Criminal records

There are three major credit reporting agencies that are commonly used by banks, landlords, car dealers, insurance companies, retail stores and employers to provide information on someone's credit history:

1. **Equifax:** PO Box 105873, Atlanta, GA 30348
(800) 685-1111 www.equifax.com
2. **Experian:** PO Box 20002, Allen, TX 75013
(888) 397-3742 www.experian.com
3. **Trans Union:** PO Box 390, Springfield, PA 19064-0390
(800) 888-4213 www.transunion.com

Teaching teens to examine their credit reports periodically will help them verify that the information is accurate.

- ***If there are mistakes***, they must take immediate action to correct them. They need to:
 - ⇒ Always communicate in writing.
 - ⇒ Tell the credit reporting agency why they think the information is incorrect and include copies of relevant documents to support their claims.
 - ⇒ Be aware that the credit reporting agency is required to investigate their challenge and must delete or change the information if it is found to be wrong. If someone disagrees with the findings of the agency, he/she has the right to include a written statement of 100 words or less in the credit report.

Did You Know?

- FICO scores are a credit rating. Most lenders base loan approval on them. It is possible to have three FICO scores, one for each major credit bureau.

- FICO scores are based on a mathematical formula that accounts for the following factors:

- ⇒ Repayment history 35%
- ⇒ Amount of credit owed 30%
- ⇒ Length of credit history 15%
- ⇒ No. of new accounts 10%
- ⇒ Type of accounts 10%

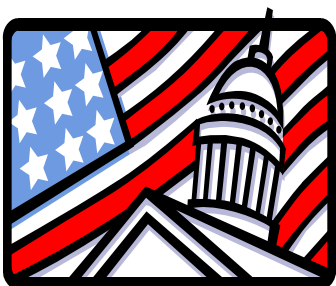


- The rate at which people are delinquent with their credit bills directly correlates to their FICO score. In 1999, the delinquency rates by score were as follows:
 - ⇒ Up to 499 = 87%
 - ⇒ 500–549 = 71%
 - ⇒ 550–599 = 51%
 - ⇒ 600–649 = 31%
 - ⇒ 650–699 = 15%
 - ⇒ 700–749 = 5%
 - ⇒ 759–799 = 2%
 - ⇒ 800+ = 1%
 (Equifax YES, n.d.)

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Did You Know?

- Income does not affect a credit score, rather it is the likelihood of repayment of the debt, that is more important.
(Association for Financial Counseling and Planning Education, 2005)



- ***If there is a lot of valid negative information in a credit report***, a borrower needs to:
 - ⇒ Realize that only time will erase it. Do NOT be tempted by “Credit Repair” offers. Credit repair companies cannot do anything that borrowers can’t do for themselves for free.
 - ⇒ Make the necessary lifestyle changes to improve their credit score.

Consumer Rights

There are several federal laws that regulate credit bureaus and protect an individual’s rights to their information. The most current law, the Fair and Accurate Credit Transactions Act (FACT Act), was signed in late 2003. The FACT Act made significant changes and additions to the Fair Credit Reporting Act of 1970.

The FACT Act:

- Entitles consumers to obtain one free copy of their credit report every twelve months from each of the three major credit bureaus.
- Increases the standard for the accuracy of information furnished to credit reporting agencies.
- Creates a right to a credit score from a credit reporting agency for a reasonable fee.
- Includes the addition of certain rights for identity theft victims and measures intended to prevent identity theft, including requiring creditors to take certain steps before granting credit when a fraud alert is contained in a credit file or accompanies a credit score.

Other notable laws are:

Truth in Lending Act (1968)—Ensures consumers are fully informed about the costs and conditions of borrowing.

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Fair Credit Reporting Act (1970)—Protects the privacy and accuracy of information in a credit report. It states that disputed information must be reinvestigated and that a consumer statement of disputed facts must be included in all future reports if one has been submitted.

Equal Opportunity Act (1974)—Prohibits discrimination in giving credit on the basis of sex, race, color, religion, national origin, marital status, age, or receipt of public assistance.

Fair Credit Billing Act (1974)—Provides a procedure for the quick correction of mistakes that appear on consumer credit accounts.

Credit CARD Act (2009)—Bans several harmful practices, requires greater transparency in the disclosure of the terms and conditions of credit card accounts, and puts restrictions on extending credit to young adults under age 21.

Consequences of Bad Credit

Teens need to understand the huge responsibility that comes with using credit. Making poor financial decisions with credit can bury them in debt and wreck their credit history. A bad credit history can:

- Negatively impact chances of qualifying for future credit.
- Negatively impact finding a place to live.
- Be an employer's deciding factor for turning an individual down for a job or advancement. It is common for employers to run credit checks on applicants in certain fields.
- Result in bankruptcy.



Opening Discussion Questions

- What options do you have if you want or need something but don't have the money to buy it?
- How would you define credit?
- List some steps you would take to obtain credit?
- How would a bank describe someone who is creditworthy?
- Does using credit cost you money? Explain.



It is essential to contact creditors immediately when someone knows debts cannot be paid on time. Creditors are usually willing to come up with a solution, such as a modified payment plan, that can work for a conscientious customer.



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ACTIVITY ONE: BUILDING CREDITWORTHINESS


Estimated Activity Time: 45 minutes

In this activity, teens will explore the term “creditworthiness.” They will learn what financial behaviors will help them obtain credit more easily. Teens will also recognize specific things they can do to become creditworthy.

Getting Ready Checklist

- Copy Handouts #1, #2a and #2b for each teen
- Copy Handouts #3a and #3b for each group
- Set up DVD player, video player or computer/LCD projector

Doing the Activity

1. To get teens thinking about the topic of credit, ask them to complete the “Credit Facts & Fiction Quiz” on p. 2 of the *Keys to Credit* teen guide. As a group, review the answers to the quiz found on p. 6 of the teen guide.
2.  Distribute Handout #1 to each teen and show the “Road to Good Credit” video. Instruct teens to complete Handout #1 while watching the video. Handout #1 answer key on p. 12 sidebar. (Handout #1, p. 28; “Road to Good Credit” video)
3. Next, take time to cover with teens the following Background Information sections on pp. 2–4 of the leader’s guide: “What Is Credit,” “Reasons For Credit,” “Costs of Credit,” and especially “Steps to Obtaining Credit.” Also, ask teens to review “Obtaining Credit” and “Keys to Building Credit,” on p. 3 of the *Keys to Credit* teen guide. (*Keys to Credit* teen guide) Include the following key points:
 - Credit is a financial tool, a promise to pay for something at a later time, and a legally binding contract.

Learning Objectives

- Teens will learn to identify the financial behavior of a creditworthy person
- Teens will identify and list specific ways to work toward creditworthiness
- Teens will evaluate their own creditworthiness
- Teens will evaluate teen profiles and create smart credit plans that will help them achieve their goals

Supplies Needed

- *Keys to Credit* teen guide
- Handout #1 (p. 28)
- Handout #2 (pp. 29–30)
- Handout #3 (pp. 31–32)
- “Road to Good Credit” video/DVD/online
- Audio visual equipment

Extend the Lesson Supplies

- Notebook or paper for journaling

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Answer Key for Handout #1

Question 1:

- Housing
- Buying furniture or major appliances
- Getting phone service
- Reserving a hotel room or renting a car

Question 2:

Borrowing money to buy something now and promising to pay it back later.

Question 3:

- Open a checking and savings account
- Apply for a credit card with your bank
- Buy something on time from a store
- Apply for a gas card
- Have someone co-sign a loan

Question 4:

Pay bills on time

Question 5:

Only what you can pay off each month

Question 6:

10 Years

~The assessment tools provided with each leader's guide are intended for the leaders to use at their discretion. Depending on the group of teens, the leaders may want to use the assessments as additional activities, homework, or as a means to determine a formal grade for completing the unit.

- There are many advantages and disadvantages to using credit.
- To minimize the cost of credit:
 - shop for the lowest APR,
 - borrow only what can be paid back,
 - make more than the minimum payment,
 - pay with cash when possible,
 - take out loans for the shortest time possible,
 - pay bills on time.
- Lenders examine the character, capital, and capacity of potential borrowers.
- Building creditworthiness take time. Start by:
 - opening a savings or checking account,
 - buying something on time from a major store,
 - applying for a secured credit card,
 - borrowing against money in savings account, or finding a co-signer.

Remember, young adults under age 21 cannot obtain credit unless they have a cosigner or can show proof of income independence to repay the debt.

4. Distribute the "Credit Quiz," Handouts #2a and #2b, to each teen and have them evaluate their creditworthiness. Ask them what surprised them about the outcome. What could they do differently to change the outcome? (Handout #2, pp. 29–30)
5. Finally, divide teens into groups. Distribute Handouts #3a and #3b to each group and assign them one of the three scenarios. Have them answer the questions together.

After 10–15 minutes, ask each group to present their answers to the class. Encourage discussion among the groups and ask whether or not they agree with each other. (Handout #3, pp. 31–32)

6. *Extend the Lesson—Financial Journal*
Have teens create a financial journal in which they can write about their jobs, earnings, savings, and goals. Then have them create a plan for how to obtain/maintain good

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ACTIVITY TWO: THE CREDIT CONTRACT

Estimated Activity Time: 45 minutes

In this activity, teens have an opportunity to understand the features found on both a credit offer and a credit application. Teens will be asked to identify the important terms of a credit offer, as well as complete a credit application.

Getting Ready Checklist

- Copy Handouts #4, #5a and #5b for each teen
- Computers with online capability (optional)

Doing the Activity

1. As a group, go over the “Types of Credit” and “Credit Contracts” section from pp. 4–6 of the leader’s guide Background Information. Also, have teens review the article entitled, “The Credit Contract” in the *Keys to Credit* teen guide, p 3. (*Keys to Credit* teen guide). Be sure to cover:
 - Installment credit includes traditional loans requiring fixed payments over a set period of time.
 - Non-installment credit includes single payment loans (like utility bills) or revolving credit (like credit cards and lines of credit).
 - A credit contract is a legally binding agreement that must include all the terms of the loan.
2. Distribute Handout #4 and explain to the teens that they will pretend to be Scott. Scott wants to buy a laptop computer and has been checking out different offers. Instruct the teens to identify the important terms of the credit contract by completing Handout #4. (Handout #4, p. 33; answers on p. 14, sidebar)

Explain to teens the importance of knowing the terms of the credit offer before applying for credit, such as:

- Annual interest rate, finance charge, late fee
- Repayment timeline, due dates, pre-payment penalties

Learning Objectives

- Teens will identify key information in a credit offer
- Teens will learn what information is typically required when applying for credit
- Teens will fill out a credit application using an example profile

Supplies Needed

- *Keys to Credit* teen guide
- Handout #4 (p. 33)
- Handout #5a (p. 35)
- Handout #5b (p. 36)
- Answer Key for Handout #5a (p. 38)
- Computers with online capabilities (optional)

Related *Money Talks* Online Game:

- Credit Terms



Answer Key for Handout #4

1. 0%
2. After 6 months or from the moment you miss a payment during the first 6 months
3. Date of purchase, 19.5% APR
4. Greater of \$10.00 or 2.25% of balance
5. \$0
6. \$45.00



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- Down payment or collateral (what is securing the loan)
- Consequences for non-repayment



If internet access is available have teens complete the *Credit Terms* game online at moneytalks4teens.org by selecting "Games" from the buttons on the left side of the home page. The game provides an overview of important credit terms.

3. Next, pass out copies of Handout #5a and #5b to each teen. Explain to them that they will be filling out the credit application on Handout #5a with Scott's information on Handout #5b. (Handouts #5a, #5b, pp. 35–36).
4. After teens complete the application, go over their answers (Answer Key for Handout #5a, p. 38). Ask how they felt about the information requested by the lender. Explain to teens that the information requested on the application is to help the lender know the applicant by:
 - Identifying the applicant
 - Substantiating regular income and other funds
 - Determining if there are outstanding debts that would make repayment of the loan less likely
5. *Extend the Lesson—Consumer Rights*
Go over the "Consumer Rights" section on pp. 8–9 of the leader's guide Background Information with students. Make sure they understand that there are laws that protect them and serve to minimize consumer deception and fraud. Describe the following laws:
 - Fair & Accurate Credit Transaction Act (FACT Act) entitles consumers to free copy of their credit report every 12 months.
 - Truth in Lending Act requires that consumers receive details of the costs and conditions of borrowing.
 - Fair Credit Reporting Act protects the privacy and accuracy of information in a credit report.
 - Equal Opportunity Act prohibits discrimination in the granting of credit.
 - Fair Credit Billing Act provides a procedure to rectify mistakes that appear on consumer credit accounts.

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ACTIVITY THREE: CREDIT REPORTING SCORES

Estimated Activity Time: 45–60 minutes

In this activity, teens will become familiar with credit reports. They will understand the information included on a credit report, as well as how that information translates into a credit score.

Getting Ready Checklist

- Copy Visuals #1, #2, #3, #4, and #5 to display using a projector
- Copy Handout #6 for each teen
- Set up projector
- Set up flip chart and marker or chalk/dry erase pen for board

Doing the Activity

1. Review the “Credit Reporting Agencies” section on pp. 6–8 of the leader’s guide Background Information with teens. Explain that the role of a credit reporting agency is to track an individual’s history of loan repayment and use of credit. The information they gather is used to compile a credit report. Credit reports are then used by banks, landlords, car dealers, insurance companies, retail stores and employers to see if applicants are creditworthy. Note that:
 - Credit reporting agencies collect four kinds of information:
 - identification and employment data,
 - payment history,
 - Credit history inquiries, and
 - public record information.
 - There are three major credit reporting agencies:
 - Equifax,
 - Experian, and
 - Trans Union.
 - If a mistake is found in a credit report the consumer should write the credit reporting agencies immediately.

Learning Objectives

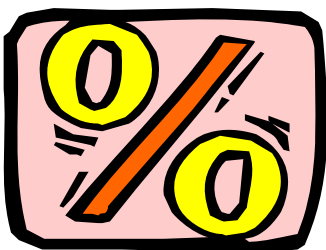
- Teens will understand the information included on a credit report
- Teens will understand the five categories of credit data used to formulate a FICO credit score, as well as the percentage that reflects the importance of each
- Teens will know the steps to take if they are denied credit
- Teens will understand the criteria used in the rating process
- Teens will compare three credit reports and estimate a numerical range (FICO) in which the borrowers may score

Supplies Needed

- Visual 1 (p. 23)
- Visual 2 (p. 24)
- Visual 3 (p. 25)
- Visual 4 (p. 26)
- Visual 5 (p. 27)
- Handout #6 (p. 37)
- Projector
- Flip chart and marker or chalk / dry erase pen

Extend the Lesson Supplies

- Computers with online capabilities



Answer Key for Handout #6


1. John Consumer
2. John D. Consumer
Jonathon Donald Consumer
3. ABC Company
4. February 1, 2014
5. January 12, 2000
6. \$800
7. \$1,500
8. Yes
9. \$700



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2. Display Visual #1, a sample credit report for John Consumer. Go through each section to familiarize teens with the types of information included. (Visual #1, p. 23)
3. Distribute Handout #6, *Examining a Credit Report*. Have teens complete it based on the information from Visual #1 on the overhead. *Note: You may choose to use Visual #3, #4 or #5 instead of Visual #1 for this activity.* Answer Key for Handout #6, Visual #1 is on p. 16, sidebar. (Handout #6, p. 37)
4. Next, explain to teens that credit reports can be given scores that illustrate to potential lenders what kind of applicants are a credit risk. The three major credit reporting agencies: Experian, Equifax, and Trans Union, use FICO scores.

Display Visual #2 on the overhead which displays FICO scores. Explain to teens that they are calculated from the credit data in your report. Scores can range from 300–850, based on all factors. (Visual #2, p. 24)

5. Write the range of FICO scores from Visual #2 on a flip-chart or board. One by one on the overhead projector, show the teens the fictitious reports on Visuals #3 (Jennifer Logan), #4 (Vance Morris), and #5 (Tom Burnes). Ask teens to estimate what the credit score might be for each example and why. Record their estimates under the appropriate score range. (Visual #3, #4, and #5, pp. 25–27)
6. Ask teens the question, “What was one important feature of the credit report or rating systems that surprised you and why?”
7.  *Extend the Lesson—Credit Reports*
Have teens learn how to correct credit reporting errors and how to deal with identity fraud. Some helpful sites are:
 - <http://www.experian.com>
 - <http://www.ftc.gov>
 - <http://www.bankrate.com>

Keys to Credit



Additional Resources

- The *Federal Trade Commission's* website includes a credit section which provides publications on consumer credit rights, such as "Credit & Your Consumer Rights," as well as information about credit laws and acts, and links to related sites.
<http://www.ftc.gov/bcp/online/edcams/credit/index.html>
- The *Federal Reserve* has an interactive website to help consumers better understand the credit card protections provided by the Credit CARD Act of 2009.
<http://www.federalreserve.gov/creditcard>
- *FirstGov for Consumers* is a "one-stop" link to a broad range of federal information resources available online. It is designed for consumers to locate information by category—such as *Food, Health, Product Safety, Your Money, and Transportation*. Each category has subcategories to direct the consumer to areas within individual federal websites containing related information. The site is a "work-in-progress" and is updated often.
<http://www.consumer.gov/yourmoney.htm>
- *Money Talks* is a financial literacy website for teens available in both English and Spanish. It contains downloadable versions of money management teen guides, interactive games, simple exercises, videos and links to other financial websites. Teachers/leaders have access to a special section of the site containing leader's guides for each unit, research articles, and additional links.
<http://moneytalks4teens.org>
- *MyMoney.Gov* is the federal government's website dedicated to helping Americans understand more about their money—how to save it, invest it, and manage it—to meet personal goals.
<http://www.mymoney.gov>
- *myFICO.com*, the consumer division of *Fair Isaac Corporation*, is an informative site that answers questions about credit scoring.
<http://www.myfico.com>
- *Practical Money Skills for Life* is a website developed by VISA designed to help teachers, parents and students practice better money management for life.
<http://www.practicalmoneyskills.com>

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Keys to Credit



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Credit Glossary

Annual Fee A set amount paid annually to use a credit card. Many credit cards come without an annual fee.

Annual Percentage Rate The cost of credit as a yearly rate.

Capacity One's ability to repay a debt.

Capital One's income and assets that can be used if a debt is not repaid.

Character One's trustworthiness to repay a debt.

Collection Agency A service or agency that strives to collect delinquent payments for the lender.

Co-Signed Agreement A credit contract signed by a financially responsible adult to borrow money with a minor or someone with a poor credit history who may not be able to obtain credit individually. All parties who sign the contract assume equal responsibility for repaying the loan.

Credit Money that a lender gives to a borrower on condition of repayment over a certain period. It allows the borrower to get something now and pay for it later.

Creditworthiness A history of responsible use of money and credit. Creditworthiness indicates to lenders or other businesses that the money borrowed will be repaid.

Credit Contract A legally binding agreement which names the borrower, the lender, and the conditions of the loan.

Credit History A record of how someone has borrowed and repaid debts.

Credit Limit The maximum dollar amount a cardholder may apply to the account.

Keys to Credit



Credit Glossary *cont.*

Credit Report A summary of bill paying behavior over a number of years.

Credit Reporting Agency An agency (sometimes known as a credit bureau) which assembles credit and other information on consumers to help others determine their creditworthiness, credit standing, and/or capacity. The three major national credit bureaus are Equifax, Experian, (formerly TRW) and Trans Union.

Credit Score A number, roughly between 300 and 800, that reflects the credit history detailed by a person's credit report.

Finance Charge The total dollar amount credit will cost.

Identity Fraud (or theft) Occurs when someone uses another person's personal information, without permission, to commit fraud or other crimes. Personal information can include a name, social security number, credit card number, or other identifying information.

Interest Payment for the use of money, calculated as a percentage of the money borrowed and paid over a specified time.

Line of Credit A commitment by a financial institution to lend up to a specified maximum amount to a customer during a specified period of time.



This publication has been anonymously peer reviewed for technical accuracy by University of California scientists and other qualified professionals. This review process was managed by the ANR Associate Editor for Youth Development.

To simplify information, trade names of products have been used. No endorsement of named or illustrated products is intended, nor is criticism implied of similar products that are not mentioned or illustrated.

ANR Publication 8223

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Money Talks—Should I Be Charging? is comprised of two teen guides and leader's guides designed for teens. The goals of these teen and leader's guides are to assist teens in understanding how credit works and how to maintain good credit, how to obtain credit, what to do if they are denied credit, safety tips when using credit cards, and how to avoid credit card scams. Comments regarding these teen and leader's guides can be addressed to: Consumer Economics Department, University of California Cooperative Extension (UCCE), 135 Highlander Hall, Riverside, CA 92521. Author: Susan Cortz, Senior Writer, UC Riverside; Development Team: UCCE Money Talks Workgroup. 2006

Keys to Credit

**CreditBureauofAmerica.com****Prepared for:** John Consumer**Report #** 47512**Report date:** January 22, 2005

Names: John Consumer
 John D. Consumer
 Jonathon Donald Consumer

DOB: 04/03/1976**SS#:** 123-45-6789**Drivers License:** CA54321

Addresses: 1000 Westminster St.
 Garden Grove, CA 92683

Telephone#: 987 456-1234

10001 Newhope Way
 Santa Ana, CA 92707

Employer: ABC Company**Past Employer:** 123 Company

Public Record Information: Type: Civil Suit; Date filed: Jan. 12, 2000;
 Ref#AB123; Court: US DIST CT; Plaintiff: Seth Smith; Liability: N/A; Asset
 Amount: N/A.

Type: Bankruptcy, CH-13; Date filed: February 1, 2004; Ref#AB123; Court:
 US DIST CT; Plaintiff: N/A; Liability: \$4,560; Asset Amount: \$7,540.

Collection Agency Account Information: Tough Guys Collection Agency:
 Reported 7/04, Ace Sports, original amount \$790, unpaid balance \$700, assigned
 for collection 12/04, last activity 5/04.

Credit Inquiries

09/12/04 Discount Sport Shop

09/14/03 Bricks & Bucks Bank

02/01/04 A1 Department Store

06/04/03 United Gas Card

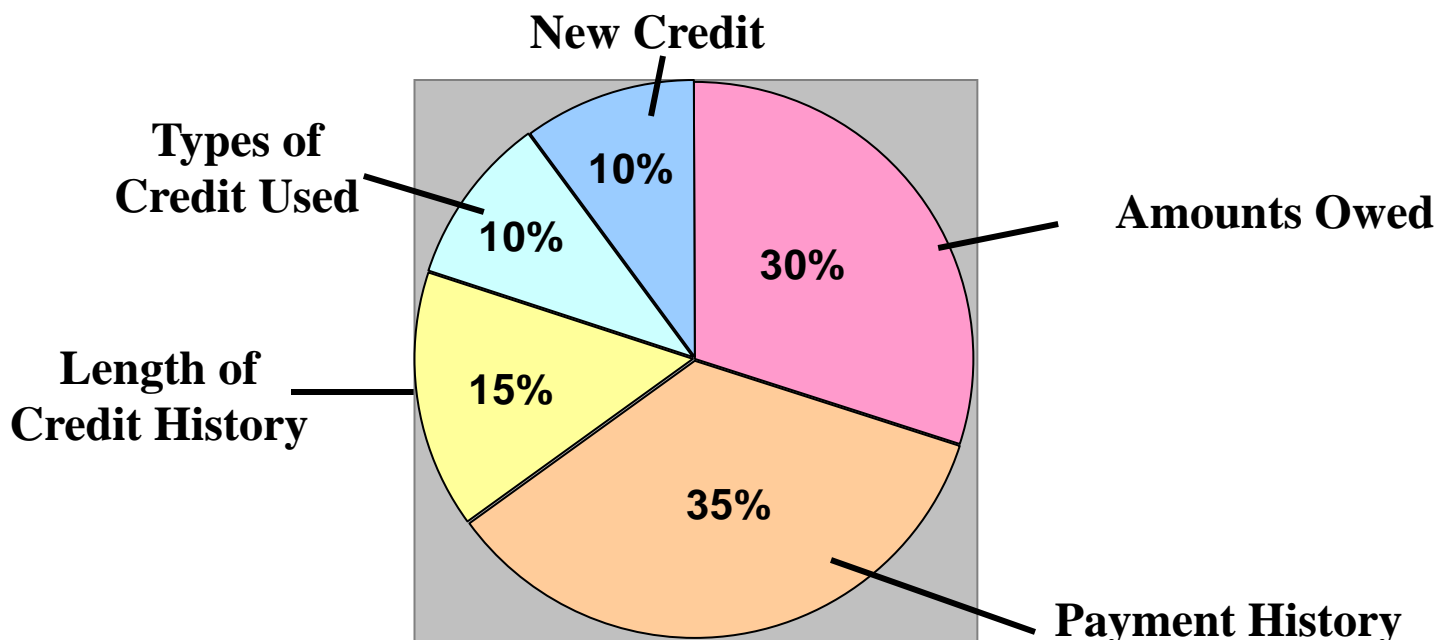
Account History:

Account Name/Number:	Type:	Opened:	Limit:	Balance/date:	Past Due:	Reported
Bricks & Bucks Bank #4321	Rev	9/03	\$1500	\$221 9/04	0	12/04
Money Bank #346503	Rev	9/02	\$1000	\$57 9/04	30	12/04
Car Loans Plus #456744	Install	12/02	\$6500	\$800 9/04	0	12/04

Payment History:

- 30 days late 2 times

FICO Scores are calculated from the credit data in a credit report. This data can be grouped into five categories: payment history, length of credit history, new credit, types of credit used, and amounts owed. The chart shows percentages that reflect how important each category is in determining a score.



SCORES and their ranges:

Poor	Low	Med	Med High	High	Very High
300-400	400-500	500-600	600-700	700-800	800-850

Keys to Credit



CreditBureauofAmerica.com		Report # 28975	
Prepared for: Jennifer Logan		Report date: January 22, 2005	
Names: Jennifer Logan		DOB: 04/03/1980	
Jennifer M. Logan		SS#: 123-45-6789	
Jennifer Marie Logan		Drivers License: UT54321	
Addresses: 1687 Elm Street		Telephone#: 987 456-1234	
Outland, UT 11111			
43 Hartford Lane		Employer: Best Tech	
Bridgetown, UT 22222		Past Employer: Outland Library	
Public Record Information: Type: Suit; Date filed: February 1, 2004; Ref#AB123; Court: US DIST CT; Plaintiff: Tina Yall.			
Collection Agency Account Information:			
Credit Inquiries:			
10/12/04 REE		08/03/02	Discount Mart
11/01/03	Federal Bank of America	01/15/02	Dermont Department Store
09/04/02	United Gas Card		
Account History:			
Account Name/Number:	Type:	Opened:	Limit:
Balance/date:	Past Due:	Reported	
REE #346503	Rev	10/04	\$1000
\$57 9/04	30	12/04	
Fed Bank Car Loan #456	Install	11/03	\$8500
\$975 8/04	0	9/04	
Payment History:			
<ul style="list-style-type: none"> • 30 days late 2 times 			



Keys to Credit

CreditBureauofAmerica.com Prepared for: Vance Morris		Report # 38456 Report date: January 22, 2005					
Names: Vance Morris Vance R. Morris Vance Robert Morris		DOB: 12/10/1980 SS#: 123-45-6789 Drivers License: NV54321					
Addresses: 567 Casey Street Carlsbad, NV 33333 987 Rutherford Rd. Little Town, MO 44444		Telephone#: 321 456-1234 Employer: DVF Deliveries Past Employers: Burger City					
Public Record Information: Type: Bankruptcy, CH-13; Date filed: February 1, 2004; Ref#AB123; Court: US DIST CT; Plaintiff: N/A; Liability: \$4,560; Asset Amount: \$7,540.							
Collection Agency Account Information: Bourne Collection Agency: Reported 5/04, Dixon Motorcycles, original amount \$790, unpaid balance \$700, assigned for collection 12/04, last activity 7/04.							
Credit Inquiries:							
08/11/04 Desert Motors		01/15/03 Boat Mart					
10/14/04 Big Sports		09/14/02 Farmers					
02/24/03 Bargain Buys		05/12/99 ABC Gas Card					
Account History:							
Account Name/Number:	Type:	Opened:	Limit:	Balance/date:	Past Due:	Reported:	
Bargain Buys #5897	Rev	2/03	\$2000	\$448 4/03	0	5/03	
Bricks and Bucks #5789	Rev	10/04	\$3000	\$827 4/03	30	8/03	
Bike Mart #7654	Rev	1/99	\$1800	\$287 2/04	0	9/04	
Frame Store #4621	Rev	9/02	\$500	\$320 9/04	60	12/04	
Payment History:							
<ul style="list-style-type: none"> • 30 days late 7 times • 60 days late 4 times 							

Keys to Credit



CreditBureauofAmerica.com		Report # 56789
Prepared for: Tom Burns		Report date: January 22, 2005
Names: Thomas Burns Thomas F. Burns Tom Burns	DOB: 04/03/1979	SS#: 123-45-6789
	Drivers License: CA54321	
Addresses: 2390 Gallagher Street San Diego, CA 98765	Telephone#: 321 654-9876	
6543 Cambridge Road Karson, NV 23456	Employer: HART Engineering	Past Employer: CS Construction
Public Record Information:		
Collection Agency Account Information:		
Credit Inquiries:		
8/8/04 Autolane		
6/11/03 Vision Electronics		
Account History:		
Account Name/Number: Type: Opened: Limit: Balance/date: Past Due: Reported :		
Vision Electronics #54365 Rev 6/03 \$5000 \$0 2/03 0 8/03		
HDF Gas Card #2341 Rev 3/02 \$1500 \$0 2/03 0 6/03		
Banker's Trust MC #8765 Instal1 2/01 \$10000 \$350 7/03 0 8/03		
Payment History:		
<ul style="list-style-type: none"> No late payments 		

THE ROAD TO GOOD CREDIT

Video Worksheet



1. What are things you may need credit for?

-
-
-
-

2. What is credit?

3. What are some things you can do to prepare yourself for obtaining credit?

-
-
-
-

4. What is the most important thing you can do to avoid trouble with credit?

5. How much credit should you use?

6. How long will a bankruptcy stay on your credit report?

 Keys to Credit



The Credit Quiz

The following self-evaluation quiz will help you understand what creditors are looking for when they score your credit application for approval or denial. The questions asked are part of the three C's. Circle the answer that is appropriate for each question.

Answer these “Character” questions:

1. Are you willing to repay the loan?

Yes

No

2. Have you used credit before?

Yes

No

3. Do you pay your bills on time?

Yes

No

4. Do you live within your means?

Yes

No

Answer these “Capacity” questions:

1. Can you afford to repay the loan?

Yes

No

2. Do you have a job?

Yes

No

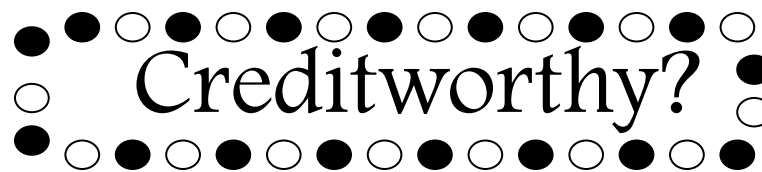
3. Have you worked longer than one year?

Yes

No

4. Do you plan to go to/complete college?

Keys to Credit



Scenario 1

Sam is a 19-year-old who is just leaving for an out-of-state college. Until now he has been living at home. He was always involved with extracurricular activities in school and never had time for a part-time job. His parents have given him a car, pay his car insurance, and give him weekly spending money which he has always used up for entertainment purposes. Sam's parents are going to pay for his room and board, books and tuition, and continue to give him some weekly spending money.

Sam thinks he may need more spending money than his parents are planning to give him and wants to get a credit card so that he can live it up at school.

Scenario 2

Lisa is almost 19 years old and lives at home while attending community college. She has worked part-time for a pet-shop since she was 16 and is now the store manager. Most of each paycheck has gone into her Brick's and Buck's savings account. She has \$8,000 in savings which she has budgeted to cover her education expenses. In addition, she maintains a balance above \$500 in her checking account and has no debt. The day she turned 18, she applied for store credit at an appliance store so she could buy her parents a microwave oven. She paid the microwave oven back way ahead of schedule. Until now, she has taken the bus to work and school but dislikes having to waste time waiting for the bus after her night classes.

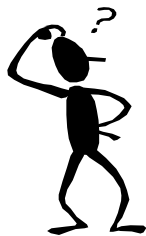
Lisa wants to apply for a loan to buy a used car for \$3,200.

Scenario 3

Peter is almost 20 years old. He inherited a house from his grandmother and has lived there since the day he turned 18. In the last two years he has worked full-time for a tire shop, a record store, and a gas station. His pay, which he has direct deposited into his Bricks and Buck's checking account, usually covers his expenses and he has only been late on his utility bill a few times. He drives a new truck with a loan that his dad co-signed for and has made each \$250 payment so far, with three more years to go.



Keys to Credit



Answer the following questions about one of the scenarios you have read.

1. Would you consider this person creditworthy? Yes No
Why? _____

2. Do you think a bank would give this person credit? Yes No
Why? _____

3. Does this person have a valid reason for using credit? Yes No
Explain. _____

4. What could this person do to make themselves more creditworthy?

5. What else could this person do besides using credit to get what he/she wants?

Keys to Credit



LAPTOP COMPUTER BLOWOUT SALE



COMPUTER TOWN USA
20% OFF ALL COMPUTERS IN STOCK



APPLY FOR A COMPUTER TOWN USA CREDIT CARD TODAY

0% INTEREST on all laptop computers for the first six months!

Subject to credit approval on Computer Town USA credit card by Bricks and Bucks

- Bank. No annual fee. Required minimum monthly payment is greater of \$10.00 or 2.25% of balance. Interest will be charged to your account from the date of purchase if balance is not paid in full within 6 months or if minimum monthly payments are not made.
- Deferred interest information: 19.5% fixed APR, default APR 23.5%.

Answer the following questions with the information above:

1. What is the APR at the time of purchase? _____
2. When will the interest rate change? _____

3. If a balance remains after the introductory offer period, from what date will interest be charged? _____ At what APR? _____
4. What is the minimum monthly payment? _____
5. What is the annual fee? _____
6. If the laptop computer ends up costing \$2000 with tax and accessories, what is the minimum payment your first month? _____

Keys to Credit



COMPUTER TOWN USA Credit Application:

PERSONAL INFORMATION

First Name:	Middle Initial:	Last Name:
Date of Birth:	SS#:	Drivers License #:
Home Phone:	Work Phone:	E-mail address:
Current Address:	City/State/Zip:	Years at this address?
Type of housing: Own Rent Other	Previous Address (if less than two years at present):	
Nearest relative not living with you with phone number:		Relationship:

EMPLOYMENT INFORMATION

Employer Name and Address:	
Position:	Employment Date: From: Mo.: ____ / Yr.: ____ To: Mo.: ____ /Yr.: ____
Previous Employer:	Employment Date: From: Mo.: ____ / Yr.: ____ To: Mo.: ____ /Yr.: ____

FIANANCIAL INFORMATION

Gross Monthly Income:	Other Income:	Checking Account #:
Savings Account #:	Amount of Outstanding Debt:	

I certify that the information given on this application is complete and true and submitted for the purpose of obtaining credit. I authorize Bricks and Bucks Bank to use any credit reporting agency or otherwise verify the information and answer questions and requests from other banks or credit agencies about my credit and experience information. I understand, agree, and accept all terms and conditions of the loan disclosure statement:

Applicant's Signature

Date

Purchase date is March 15th

- Scott M. Nelson: smnel@yahoo.com
- Scott's birthday is January 10. (Count back 19 years for the year).
- He lives at 345 Elm St., Norris, CA 90006. He lives with his parents and the family has been in their house for 8 years. Phone # (321) 764-2324.
- His SS# is 987-65-4321.
- His CA Driver's license is AB654321.
- He has been doing construction work for BIG HOUSE Construction Co. for the last year and a half. (Count back 1 year and six months for the hire date).
- The company's address is 672 Grant Ave., Norris, CA 90006, phone # (321) 764-5009.
- He works 40 hours a weeks for \$20 an hour.
- He has had a savings account (#896723) and checking account (#896722) at Briggs Bank for three years.
- Scott has a new motorcycle.
- Scott has a credit card with a balance of \$325.
- Grandpa Dan Nelson always knows how to contact Scott. Grandpa Dan's phone number is (321) 764-0712.

Keys to Credit



Examining a Credit Report



Using the sample credit report, answer the following questions:

1. Who is this credit report for? _____
2. What other names has this person used? _____

3. Who is this person's employer? _____
4. When will the bankruptcy be removed from the file? _____
5. When was a civil claim filed against this customer? _____
6. What is the Car Loan Plus account balance? _____
7. What is the limit for the Bricks and Bucks account? _____
8. Was payment on the Money Bank account ever received late? _____
9. What is the balance of the account that was sent to collections? _____



Keys to Credit

COMPUTER TOWN USA Credit Application:

*Note: ** will vary depending on the date of assignment*

PERSONAL INFORMATION

First Name: Scott	Middle Initial: M.	Last Name: Nelson
Date of Birth: 1 / 10 / **	SS#: 987-65-4321	Drivers License #: AB654321
Home Phone: (321) 764-2324	Work Phone:	E-mail address: smnel@yahoo.com
Current Address: 345 Elm Street	City/State/Zip: Norris, CA 90006	Years at this address? 8 years
Type of housing: Own Rent Other	Previous Address (if less than two years at present):	
Nearest relative not living with you with phone number: Dan Nelson (321) 764 - 0712		Relationship: Grandfather

EMPLOYMENT INFORMATION

Employer Name and Address: Big House Construction Co, 672 Grant Avenue, Norris, CA 90006 (321) 764 - 5009		
Position: Construction Worker	Employment Date: From: Mo.: <u>**</u> / Yr.: <u>**</u> To: Mo.: <u> </u> / Yr.: <u>present</u>	
Previous Employer:	Employed Date: From: Mo.: <u> </u> / Yr.: <u> </u> To: Mo.: <u> </u> / Yr.: <u> </u>	

FIANANCIAL INFORMATION

Gross Monthly Income: \$3,200 (40 hrs. x \$20 x 4 wks.)	Other Income:	Checking Account #: Briggs Bank #896722
Savings Account #: Briggs Bank #896723	Amount of Outstanding Debt: \$325 on credit card	

I certify that the information given on this application is complete and true and submitted for the purpose of obtaining credit. I authorize Bricks and Bucks Bank to use any credit reporting agency or otherwise verify the information and answer questions and requests from other banks or credit agencies about my credit and experience information. I understand, agree, and accept all terms and conditions of the loan disclosure statement:

Applicant's Signature

Date