Credit

Lesson 4: Teacher's Guide | Hall of Fame: Ages 18+

FINANCIAL FOOTBALL

Aim for Strong Stats, Why Credit Counts

Building and managing your credit responsibly is crucial for reaching financial goals. This 45-minute module develops students' awareness of what credit is, how personal creditworthiness is built and maintained, and the factors to consider in choosing different types of loans.

Getting Your Class Game-Ready: In football, as in other sports, statistics are used to measure how well individual football players perform, as well as where the team stands in the league's rankings. Favorable numbers play a huge part in how the football player does in their career, as well as whether the team eventually makes it to the playoffs or the Super Bowl.

Once students start using credit, whether through credit cards, student loans, or other forms of borrowing, they begin building a credit history. This credit history is a bit like a player's statistics in football. By looking at your past financial statistics, banks or lenders can evaluate and measure the likelihood that you'll be able to pay off debt if they decide to give you a loan or a credit card. In other words, your credit history, measured using past performance with money, determines what kind of credit risk you are.

As young adults begin to build credit, it's important for them to learn about creditworthiness and how it can affect one's financial future. Avoiding mistakes that damage creditworthiness is vital, because once it's damaged, restoring that creditworthiness may be a long and difficult process.

Module Level: Hall of Fame, Ages 18+

Time Outline: 45 minutes total (plus 45 minutes of optional activities)

Subjects: Economics, Math, Finance, Consumer Sciences, Life Skills

Materials: Facilitators may print and photocopy handouts and quizzes, and direct students to the online resources below.

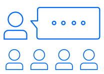
- **Pre- and Post-Test questions:** Use this short grouping of questions as a quick, formative assessment for the credit module or as a Pre- and Post-Test at the beginning and completion of the entire module series.

Overview, cont.

- **Practical Money Skills Credit resources:** practicalmoneyskills.com/ff12
- **Choose Your Own Adventure handout**
- **Practical Money Guides Credit History:** practicalmoneyskills.com/ff14
- **True Cost of Credit handout**
- **Cost of Credit Financial calculator:** practicalmoneyskills.com/ff15
- **myFICO Free Credit Scores Estimator:** practicalmoneyskills.com/ff16
- **Glossary of Terms:** Learn basic financial concepts with this list of terms.

Icon Key

Activity
Assign the given activity to students and have them complete it individually or with a group, depending on the instructions.



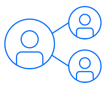
Ask
Pose questions to your students and have them respond.

Assign
Designate individuals or groups to complete a particular assignment.

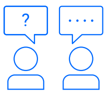
Debrief
Examine the activities as a whole group and compare answers and findings.

Did You Know?
Share these fun facts with students throughout the lesson.

Pre- and Post-Test
Have students take the Pre-Test before the lesson, and take the Post-Test after completing the lesson.



Share
Read or paraphrase the lesson content to students.



Turn and Talk
Have students turn to a partner and discuss a specific topic or question.

Table of Contents

Learning Objectives

– Define credit, credit scores, and credit reports
– Identify what builds creditworthiness
– Examine the five Cs of credit (character, capital, capacity, collateral, and conditions)
– Analyze the costs and benefits of credit cards and other types of credit

Key Terms and Concepts

Before you start the lesson, review the key terms and concepts below. The answers to each question will help you get students prepped and game-ready. Get deeper information around these concepts in the Facilitator Script section on pages 8 to 10 of this guide.

What is credit and how does it affect my life?

It is an agreement by which a borrower receives something of value now and agrees to pay the lender at a later date. Credit can be a convenient and flexible form of payment, but it must be used responsibly for you to make the most of your money.

How do I get a credit score and what does it mean?

When you apply for credit, lenders determine your credit risk by examining a number of factors, including your credit scores from companies like FICO and VantageScore. Each of the three main credit bureaus — Experian, TransUnion, and Equifax — keeps credit information about you that is used to calculate your scores. This includes your payment history, the amount of money you owe, the length of your credit history, and the number of recently opened credit accounts. The resulting three-digit score measures your creditworthiness — how likely you are to repay debts. Scores can vary between 300 and 850. If you haven't ever had a loan in your name you may not have a score — just like a player who hasn't played in a game yet.

What is a credit report?

Credit scores are based on a review of your credit report. Your credit report is a statement that has information about your credit activity and current credit situation, such as loan paying history and the status of your credit accounts.

How do I get to see my credit report?

You are entitled to receive a free copy of each of your three credit reports once every 12 months. Order yours online from annualcreditreport.com or call 1-877-322-8228. You will need to verify your identity with your name, birth date, address, and Social Security number.

Key Terms and Concepts, cont.

I just turned 18. How can I build my creditworthiness?

1. Build your Character:
   - ✓ Always pay your bills on time.
   - ✓ When you are confident you can manage the responsibility of a credit card, consider opening a secured credit card account. Always pay your credit card balance in full and on time each month and maintain balances below 10% of your credit limit.
   - ✓ Protect your identity. If your credit card is lost or stolen, report it to the issuer immediately. Check each credit report once a year for inaccuracies and immediately report errors to resolve any issues.
   - ✓ Do not apply excessively for credit.
2. Grow your Capital:
   - ✓ Use savings strategies to save for the down payment of a future loan.
3. Establish evidence of your Capacity to repay loans:
   - ✓ Establish a consistent work history and increase your cash flow.
   - ✓ Avoid over borrowing. Whether it is a student loan, mortgage, a credit card, or auto loan, just because you qualify to borrow a certain amount doesn't mean you have to borrow that amount.
4. Document Collateral:
   - ✓ Ensure you have a list of property or assets, as some lenders may require you to put up this collateral for certain types of loans.
5. Assess Conditions:
   - ✓ Take stock of why you need the loan (such as buying a car), the amount you are requesting, and the current interest rates, as lenders may want to know these details.
   - ✓ Consider conditions that are out of your control, like the current state of the economy.

How do I choose the best credit card or loan?

The best way to maximize the benefits of loans, including student, auto, credit card, personal, and peer-to-peer loan options, is to understand your financial lifestyle — what you need, what you want, and how much money you spend. Begin your search for a credit card by determining key factors like how often you'll use it, whether you'll want to use it overseas, and if the financial institution that offers it has a branch near you. It's important to make sure you know the terms of the credit card in the following areas:

- Annual percentage rates (APRs) and whether rates are fixed or variable
- Annual, late, and overdraft-limit fees

Key Terms and Concepts, cont.

- Credit limit on account
- Grace periods before interest or fees begin accruing
- Rewards, including airline miles or cash back

Consider your options and be smart about other loans you take out, including:

Student Loans – If you need to borrow money to cover your college tuition, you normally take out a student loan. There are a few options for what kind of loan you would apply for, including federal loans and loans from private companies.

Auto Loans – You may be able to buy and finance a car through auto loans from car dealerships, banks, and credit unions. You may also take out a home equity loan, which allows you to use your home as collateral for your auto loan.

Personal Loans – A personal loan can be used to cover various costs, from repaying credit card debt to taking an expensive vacation, at your discretion. Personal loans can be secured or unsecured, depending on whether you have collateral and the risk you want to take.

Peer-to-Peer Loans – You can use an online service to match up with a peer lender, whether you want a loan for personal purposes or your business. Many of these loans are unsecured, and since operations are conducted entirely online, you should approach peer-to-peer loans with caution.

Module Section Outline with Facilitator Script

Introduction: Warm-Up

Directions: Get your students warmed up before playing the game by teaching them more about the concept of credit. Start by sharing stories about the wise use of credit to help students develop good personal finance habits. After sharing those examples, poll your class by asking the question in the prompt below.

Share: Explain to students that credit can be a convenient and flexible form of payment, but it must be used responsibly in order for them to make the most of their money.

Ask: Ask students whether they think a credit score can impact their ability to get a cell phone on their own or rent an apartment. (Yes.) Tell them you'll explore the many ways our credit score affects our financial opportunities.

Optional Pre-Test: See page 8 of the Student Activities guide.

Credit Scores: Why the Numbers Matter

Directions: Ask your students whether they've heard the term credit scores. Share facts about how credit scores are calculated. Assign your class the Choose Your Own Adventure activity on page 9 of their Student Activities guide. Share the 5 C's of credit and how they build creditworthiness.

Ask: Pose this question to your students. What is a credit score? Take a few responses or guesses. Explain that even NFL stars make credit mistakes sometimes. One NFL quarterback said he stopped paying his cell phone bill after his phone broke, not realizing the impact it would have on his credit score years later when he was trying to buy a car and get a home loan.

Share: Explain that a credit score is a three-digit number that represents how financial institutions perceive our creditworthiness. It assesses how likely we are to repay debts. The higher our score, the more lenders trust our ability to repay funds. Credit scores have been used for decades to measure individuals' ability to handle debt. The most common method of calculating scores was developed by the Fair Isaac Corporation, so credit scores often get called FICO scores. Scores can range between 300 and 850.

Activity: Have the class turn to page 9 of their Student Activities guide for the Choose Your Own Adventure activity. Explain how the choices reflected in their answers to each question could positively or negatively impact their credit score.

Assign: Have students review each question, then determine which factor or factors of their credit apply. As students make choices through the online tool, they should record each selection on the Choose Your

Module Section Outline with Facilitator Script, cont.

Own Adventure handout, check which factor(s) of their credit score it represents, and explain whether the decision will build or hurt their credit score. Try the first question together as a class. Give students 10 minutes to work with a partner; any questions not completed may be completed individually as a take-home activity.

Quick Tips: Have students debrief by discussing their decisions along with their partners; they should discuss which actions allowed them to build better scores.

Share: Emphasize that our track record of decision-making (character), our current financial situation (capital), our ability to pay back debt (capacity), property or assets we have that can be put up if required by a lender (collateral), and the state of the economy (conditions) all factor into our creditworthiness.

1. **Character.** A lender may decide whether you are honest and reliable to repay debt based on your credit history. Lenders are likely to look at your credit use, bill payment, residential history, and how long you've worked at your current workplace.

   The most effective way to strengthen your credit reliability is to make payments on time. Many credit card companies offer free, automatic alerts to help you keep track of your balances, payment due dates, payment history, purchase activity and auto pay.

2. **Capital.** A lender will want to know if you have valuable assets such as real estate, personal property, investments, or savings with which to repay debt if income is unavailable.

3. **Capacity.** This refers to your ability to pay off debt. Lenders will look to see if you have been working regularly in an occupation that is likely to provide enough income to support your credit use. They may look at your salary, check whether you have pre-existing loans or debts, and assess whether you have family members who depend on your earnings. Income is not part of your credit score, but it can impact your ability to get approved for a loan.

4. **Collateral.** A lender may require you to put up some form of collateral — a property or asset — for certain types of loans like auto loans. When you take out a car loan the vehicle you buy is typically used as collateral for the loan.

5. **Conditions.** This refers to the condition of the economy and how it may affect your ability to repay the loan.

Optional Activity: Have students read up on ways to build credit: practicalmoneyskills.com/ff19

Credit Reports

Ask: See if students know or can guess why it would be important to look at your credit score.

Share: Explain that to predict your financial future, many businesses look at your financial past through your credit report. A credit history is a profile within a credit report that shows how you've handled money in the past. Your credit report is kept on file by three independent credit bureaus: Experian, TransUnion, and Equifax.

Module Section Outline with Facilitator Script, cont.

The Credit History Practical Money Guide, available at practicalmoneyskills.com/ff14, shows what kinds of things are included in our credit report. It also gives practical tips for keeping your credit strong. Display the guide for the class to see, and talk through the following:

Who can see your credit report?

- Potential employers
- Banks and credit unions
- Credit card issuers
- Landlords
- Auto financing companies
- Insurance companies

Optional Activity: Have students set alert reminders on their phones to check their credit report at least once a year beginning at the age of 18. They can get their reports at: practicalmoneyskills.com/ff18.

Credit Cards

Directions: Assign students The True Cost of Credit activity on page 13 of their Student Activities guide. Ask students to review each scenario and answer questions on how long it will take to pay the loan off and how much they will pay in finance charges. After each student completes the activity in pairs, conduct a "Turn and Talk" session where students discuss with one classmate of how credit cards work.

Activity: The True Cost of Credit; on page 13 of the Student Activities guide.

Turn and Talk: Ask students to talk with a classmate about their impressions of how credit cards work.

Assign: Have students work in pairs. Each pair will work to calculate a series of provided purchase scenarios on the Cost of Credit Handout. They can use the Cost of Credit financial calculator: practicalmoneyskills.com/ff16. Any scenario not completed during the class period may be finished as a take-home activity.

Quick Tips: When using a credit card, it's important to consider the cost of convenience. To minimize the risk of hurting your credit score, avoid balances that are above 30% of the credit limit at any time. To build your credit score, maintain balances of less than 10% of the credit limit. Most importantly, pay your bill on time and every time.

Closing: Group Discussion

Quick Tips: Have students identify one simple rule of thumb to help them remember how to use credit responsibly. What rule do students think would be wise?

Optional Post-Test

Lesson 4 Credit: Answer Keys

> Credit Pre- and Post-Test

> Credit Choose Your Own Adventure handout

> True Cost of Credit handout

Credit Pre- and Post-Test

Directions: Have students answer the questions with the most appropriate answer, noting a, b, c or d. They can find the test on page 8 of their Student Activities guide.

Answer Key

1. What three main factors are used to calculate your credit score?

a. Your income, debt, and monthly expenses

b. Your payment history, money owed, and credit history

c. Your earning potential, income taxes, and monthly expenses

d. Your payment history, annual income, and total debt

2. What does a credit score help a lender determine?

a. How much money you owe

b. Your monthly income

c. Your savings rate

d. Your reliability to pay back money you owe

3. The faster you pay back the money you borrow, the lower the amount of interest you will pay over a specific period of time.

a. True

b. False

4. You are not responsible for late fees on your credit card during vacation.

a. True

b. False

5. A good way to begin building credit is:

a. Pay bills on time

b. Open and pay off a loan

c. Maintain a credit card balance that is less than 10% of your credit limit

d. All of the above

Choose Your Own Adventure

Directions: Help students prepare for this activity by researching credit scores and how to keep scores strong using the resource below. Explain how the choices reflected in their answers to each question could positively or negatively impact their credit score. Have students think about each question and which aspects of their credit factor in to their credit score.

Check out 10 Ways to Keep Your Credit Strong: practicalmoneyskills.com/ff20

Answer Key

1. How long ago did you get your first loan (i.e., auto loan, mortgage, student loan, etc.), if you've taken out a loan?

The answer to this question relates to the following factor(s) affecting your credit score. (check as many as apply):

- ☐ Payment history
- ☐ How much you owe
- ☐ *Length of your credit history*
- ☐ Different types of credit you have used
- ☐ New applications for credit

What answer would provide the greatest benefit to your score? What answer would most damage your credit score?

Answers may vary; your credit score increases the longer you've had credit and is based on the average age of your credit lines

2. How many loans or credit cards have you applied for in the last year?

The answer to this question relates to the following factor(s) affecting your credit score. (check as many as apply):

- ☐ Payment history
- ☐ How much you owe
- ☐ *Length of your credit history*
- ☐ Different types of credit you have used
- ☐ *New applications for credit*

What answer would provide the greatest benefit to your score? What answer would most damage your credit score?

Answers may vary; opening new lines of credit negatively affects your score; opening new credit accounts also affects the average length of your credit history

3. When was the last time you opened a new loan or credit card?

The answer to this question relates to the following factor(s) affecting your credit score. (check as many as apply):

Choose Your Own Adventure, cont.

- ☐ Payment history
- ☐ How much you owe
- ☐ Length of your credit history
- ☐ Different types of credit you have used
- ☐ *New applications for credit*

What answer would provide the greatest benefit to your score? What answer would most damage your credit score?

Answers may vary; opening new lines of credit negatively affects your score; opening new credit accounts also affects the average length of your credit history

4. How many of your loans currently have a balance?

The answer to this question relates to the following factor(s) affecting your credit score. (check as many as apply):

- ☐ Payment history
- ☐ *How much you owe*
- ☐ Length of your credit history
- ☐ *Different types of credit you have used*
- ☐ New applications for credit

What answer would provide the greatest benefit to your score? What answer would most damage your credit score?

Answers may vary; having different types of credit open (credit cards, store cards, student loans, auto, etc.) increases your score. Having balances above 30% of the line of credit will negatively impact your score. Maintain balances of less than 10% of the credit limit to build up your score.

5. What is the total balance on all of your loans and credit cards combined?

The answer to this question relates to the following factor(s) affecting your credit score. (check as many as apply):

- ☐ Payment history
- ☐ *How much you owe*
- ☐ Length of your credit history
- ☐ Different types of credit you have used
- ☐ New applications for credit

What answer would provide the greatest benefit to your score? What answer would most damage your credit score?

Answers may vary; having balances above 30% of the line of credit will negatively impact your score. Maintain balances less than 10% of the credit limit to build up your score.

6. When did you last miss a loan or credit card payment?

The answer to this question relates to the following factor(s) affecting your credit score. (check as many as apply):

- ☐ *Payment history*
- ☐ How much you owe

Choose Your Own Adventure, cont.

- ☐ Length of your credit history
- ☐ Different types of credit you have used
- ☐ New applications for credit

What answer would provide the greatest benefit to your score? What answer would most damage your credit score?

Answers may vary; late payments negatively affect your credit score for seven years.

7. How many of your loans and/or credit cards are currently past due?

The answer to this question relates to the following factor(s) affecting your credit score. (check as many as apply):

- ☐ *Payment history*
- ☐ How much you owe
- ☐ Length of your credit history
- ☐ Different types of credit you have used
- ☐ New applications for credit

What answer would provide the greatest benefit to your score? What answer would most damage your credit score?

Answers may vary; late payments negatively affect your credit score for seven years.

8. What % of your total credit card limits do your credit card balances represent?

The answer to this question relates to the following factor(s) affecting your credit score. (check as many as apply):

- ☐ Payment history
- ☐ *How much you owe*
- ☐ Length of your credit history
- ☐ Different types of credit you have used
- ☐ New applications for credit

What answer would provide the greatest benefit to your score? What answer would most damage your credit score?

Answers may vary; having balances above 30% of the line of credit will negatively impact your score. Maintain balances of less than 10% of the credit limit to build up your score.

9. In the last 10 years, have you ever experienced bankruptcy, tax lien, foreclosure, repossession, or an account in collections?

The answer to this question relates to the following factor(s) affecting your credit score. (check as many as apply):

- ☐ *Payment history*
- ☐ How much you owe
- ☐ Length of your credit history
- ☐ Different types of credit you have used
- ☐ New applications for credit

Choose Your Own Adventure, cont.

What answer would provide the greatest benefit to your score? What answer would most damage your credit score?

Answers may vary; late payments negatively affect your credit score for seven years.

10. Estimated FICO score range:

300-850

True Cost of Credit

If you don't pay off your credit card balance every month, the interest assessed on your account means you may be paying more than you expect. And if you spend beyond your means, the resulting interest and debt can become significant. See how much extra you might pay on a $1,000 credit card purchase with varying interest rates, depending on your payment amount each month.

Use the Cost of Credit financial calculator: practicalmoneyskills.com/ff16

Directions: Have your class turn to page 13 of their Student Activities guide. Ask them to review each scenario and answer questions about how long it will take to pay the loan off and how much they will pay in finance charges.

Answer Key

Scenario 1

Purchase: $1,000 on credit card for weekend trip with friends

Monthly payment: Minimum balance of $40

Credit card APR (interest rate charged): 10%

How long will it take you to pay off? *29 months*

How much will you pay in finance charges (interest fees)? *$126.02*

Scenario 2

Purchase: $1,000 on credit card for new laptop

Monthly payment: $150

Credit card APR (interest rate charged): 15%

How long will it take you to pay off? *8 months*

How much will you pay in finance charges (interest fees)? *$50.65*

Scenario 3

Purchase: $1,000 on credit card for summer vacation expenses

Monthly payment: $100

Credit card APR (interest rate charged): 25%

How long will it take you to pay off? *12 months*

How much will you pay in finance charges (interest fees)? *$132.99*

True Cost of Credit, cont.

Scenario 4

Purchase: $2,500 for rent and food

Monthly payment: $250

Credit card APR (interest rate charged): 25%

How long will it take you to pay off? *12 months*

How much will you pay in finance charges (interest fees)? *$332.48*

Scenario 5

Purchase: $250 for equipment needed for school

Monthly payment: $250

Credit card APR (interest rate charged): 25%

How long will it take you to pay off? *two months (also accepted: one month)*

How much will you pay in finance charges (interest fees)? *$5.26 (also accepted: $0 if paid in full that month)*

Glossary of Terms

Have students study this list of personal finance terms to warm up before playing Financial Football. By mastering these terms, students will have a better opportunity to answer questions in the game correctly and score.

Annual fee: The once-a-year cost of owning a credit card. Some credit card providers offer cards with no annual fees.

Annual percentage rate (APR): The yearly interest rate charged on outstanding credit card balances.

Balance: In personal banking, balance refers to the amount of money in a savings or checking account. In credit, balance refers to the amount of money owed.

Capacity: This refers to your ability to pay off debt.

Capital: Wealth in the form of money or property.

Character: A lender's assessment of your reliability to repay debt based on your credit history.

Collateral: A property or asset pledged as security for repayment of a loan, to be forfeited in the event of a default.

Compound interest: Compound interest (or compounding interest) is interest calculated on the initial principal and also on the accumulated interest of previous periods of a deposit or loan. A savings account earns interest every day. Each time your interest compounds, it gets added back to your account and becomes part of your principal. With more principal, the account earns even more interest, which continually compounds into new principal.

Conditions: This refers to the condition of the economy and how it may affect your ability to repay the loan.

Cost-benefit analysis: Analyzing whether the cost of an item is more than, equal to, or less than the benefit that comes from its purchase.

Credit: An agreement by which a borrower receives something of value now and agrees to pay the lender at a later date.

Credit bureau: A reporting agency that collects information on consumer credit usage. There are currently three main credit bureaus in the United States: Equifax, Experian, and TransUnion.

Credit card: Card issued by a bank or other business for purchases using borrowed funds to be paid back later.

Credit history: A record of an individual's past borrowing and payments.

Credit limit (credit line): The maximum dollar amount that can be charged on a specific credit card account.

Credit rating: A financial institution's evaluation of an individual's ability to manage debt. It's crucial to have a good credit rating if you want to borrow money or apply for a line of credit, such as a credit card. Your credit rating can also impact the cost of some insurance and can be a hiring factor for some employees and a rental agreement factor for some landlords.

Credit report: A document outlining your credit history, for use by credit card issuers and others considering providing you with a loan.

Glossary of Terms, cont.

Credit reporting agency: A company that compiles and provides information to creditors to facilitate their decisions about extending credit.

Credit score: A credit score is a numerical expression primarily based on credit report information that is usually sourced from credit bureaus. There are many different credit scoring companies; most credit score ranges are from 300 to 850.

Creditor: A person or business to whom money is owed.

Creditworthiness: An analysis made by a lender about a consumer's riskiness as a borrower.

Debt: The state of owing money to another individual or business, or the amount of money borrowed.

Debt load: The sum total of all the money you owe.

Debt-to-income ratio: A calculation comparing the amount you owe to the amount you earn. Debt-to-income ratio may be used to see how much debt you can afford to take on.

Finance: To borrow funds for the purpose of a purchase.

Finance charge: Fees assessed from borrowing funds for the purpose of a purchase.

Fixed rate: A fixed rate does not fluctuate over the length of the loan or investment term.

Good debt: The concept that sometimes it is worth taking on certain types of debt in order to benefit financially in the long run. Common examples include college education debt and real estate.

Grace period: The period of time after a payment deadline when the borrower can pay back the borrowed money without incurring interest or a late fee.

Guaranteed interest rate: The minimum interest rate an investor or borrower can expect from an issuing company.

Interest: A charge for borrowed money; generally a percentage of the amount borrowed.

Interest rate: The rate at which a borrower pays interest for borrowing an item or money, or the percentage rate earned on a given investment.

Introductory rate: An interest rate offered by lenders in the initial stages of a loan. These rates are often set much lower than standard rates in order to attract new borrowers. Introductory rates, sometimes called teaser rates, are most common in the credit card industry.

Loan term: The period of time during which a loan is active.

Minimum balance: A specific amount of money that a bank or credit union requires in order for you to open or maintain a particular account without paying maintenance or minimum balance requirement fees.

Minimum payment: The minimum amount of money that you are required to pay on your credit card statement each month in order to keep the account in good standing.

Glossary of Terms, cont.

Payment history: A record of monthly payment status on an individual's credit report listed since the time the accounts were established.

Variable interest rate: An interest rate that fluctuates based on market changes.