

Aim for Strong Stats, Why Credit Counts

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

Getting 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 his or her career, as well as whether the team eventually makes it to the playoffs or the Super Bowl.

Once you start using credit, whether through credit cards, student loans, or other forms of borrowing, you begin building a credit history. Your 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 you begin to build credit, it's important to learn about creditworthiness and how it can affect one's financial future. Avoiding mistakes that damage

your creditworthiness is vital, because once it's damaged, restoring creditworthiness may be a long and difficult process.

Module Level: Rookie, Ages 11-14

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

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

- **Pre- and Post-Test questions:** Answer five questions before completing the Credit activities to see how much you already know about the topic. After you've finished all the activities with your teacher and classmates, try taking the quiz again to see how your understanding has grown.
- **Practical Money Skills Credit resources:** practicalmoneyskills.com/ff12

Overview, cont.

- **Choose Your Own Adventure handout**
- **Practical Money Guides Credit History:**
practicalmoneyskills.com/ff14
- **True Cost of Credit Rookie handout**
- **Cost of Credit Financial calculator:**
practicalmoneyskills.com/ff15
- **Glossary of Terms:** Learn basic financial concepts with this list of terms.

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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 get you prepped and game-ready.

What is credit and how does it affect my life?

Credit is trusting someone to borrow money or something else of value and paying for it later. Credit can be a convenient and flexible form of payment, but it must be used responsibly in order 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 credit 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 reflects 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 on my credit report?

Your credit report shows how you've handled your finances. Credit score calculations 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. Just like a football player's stats or a student's report card, it shows how you are doing with your money.

How do I get to see my credit report?

Everyone who is 18 years or older is entitled to receive a free copy of their credit report once every 12 months. Once you are 18, you can order yours online from annualcreditreport.com or by calling 1-877-322-8228. You will need to verify your identity with your name, birth date, address, and Social Security number.

Learning Objectives, cont.

How can I build my creditworthiness?

Credit scores change over time. They go up or down based on how much debt you owe and how you manage your bills. If someone has late payments or owes a large amount of money, it can decrease their credit score dramatically.

When I turn 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.

10 ways to keep your credit score strong

Each of these strategies will help you grow and manage your credit over time.

1. Complete credit applications carefully and accurately.
2. Use your credit cards responsibly — don't spend more than you can reasonably pay back. Be careful not reach your credit card's limit (the total amount available to borrow).
3. Choose your credit cards wisely and make sure you understand all of the terms and features.

Learning Objectives, cont.

4. Attempt to pay your credit card balance in full each month, but at least make the minimum payment by the due date.
5. Always pay bills on time.
6. If you have problems paying your bills, contact your creditors. In many cases, they will work with you to figure out a payment plan.
7. If you move, let your creditors know your new address as soon as possible to avoid losing bills or receiving them late.
8. If your credit card is lost or stolen, report it to the issuer immediately.
9. Check your credit reports periodically for inaccuracies and immediately report errors to resolve any issues.
10. Establish a consistent work history.

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. This rate shows you how much interest you will be charged if you do not pay your full bill each month.
- Annual, late, and overdraft-limit fees; these are different fees that you can be charged for having a credit card. Some cards have an annual membership fee. All credit cards charge late fees if you miss a payment. Some credit cards charge overdraft-limit fees if you spend more than your credit limit.
- Credit limit on account; this is the maximum amount you are allowed to borrow (spend) from your credit card.
- Grace periods before interest begins 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 to consider, including federal loans and loans from private companies.

Auto Loans – You may be able to buy and finance a car through an auto loan from a car dealership, bank, or credit union. 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

Learning Objectives, cont.

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 another reason. Many of these loans are unsecured, and since operations are conducted entirely online, you should approach peer-to-peer loans with caution.

Student Activities

- > Credit Pre- and Post-Test
- > Choose Your Own Adventure handout
- > True Cost of Credit handout

Credit Pre- and Post-Test

Student Name: _____

Directions: Answer the questions with the most appropriate answer, noting a, b, c or d.

1. The best way to build your credit score is to avoid borrowing money.

- a. True
- b. False

2. If someone only pays the minimum credit card payment they will owe interest on the money borrowed.

- a. True
- b. False

3. The faster you pay back the money you borrow, the lower the amount of interest you will pay.

- 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: Prepare for this activity by researching the topic of credit scores and how to keep scores strong. Your answers to each question can positively or negatively impact your credit score tabulated at the end.

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

Build the best credit possible using The Cost of Credit Calculator: practicalmoneyskills.com/ff16

Introduce each scenario as the story of a character; predict if the person's credit score is likely to be poor (below 580), fair (580-669), good (670-739), or very good (740+).

Scenario one:

At 26 years old, Malcom is working hard to save for his first home. Each month he pays his car loan payment on time.

Scenario two:

At 19 years old, Jamie is working to buy a car. Jamie really likes shopping and has quite a bit of credit card debt. She sometimes pays bills on time.

Quick Tips: Discuss which actions each of the character's took that helped or hurt their credit.

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 expected to. And if you spend beyond your means, the resulting interest and debt can become significant.

See how much extra you might pay on a \$100 credit card purchase with varying interest rates, depending on your payment amount each month.

Use the Cost of Credit financial calculator: practicalmoneyskills.com/ff15

Directions: Review each scenario and answer questions on how long it will take to pay the loan off and how much you will pay in finance charges. You can solve each problem using paper and pencil or the Cost of Credit calculator online tool listed above.

Scenario 1

Purchase: \$100 on credit card for new sports equipment

Monthly payment: Minimum balance of \$40

Credit card APR (interest rate charged): 10%

How long will it take you to pay off? _____

How much will you pay in finance charges (interest fees)? _____

Scenario 2

Purchase: \$100 on credit card for video game and downloadable content

Monthly payment: \$20

Credit card APR (interest rate charged): 15%

How long will it take you to pay off? _____

How much will you pay in finance charges (interest fees)? _____

Scenario 3

Purchase: \$100 on credit card for clothes

Monthly payment: \$10

Credit card APR (interest rate charged): 25%

How long will it take you to pay off? _____

How much will you pay in finance charges (interest fees)? _____

True Cost of Credit, cont.

The Convenience of Credit

Credit cards can be powerful financial tools for you and your family, and as with all financial products, they need to be used carefully. A credit card allows you to purchase necessary items now and pay later.

Advantages to Using a Credit Card

- Being able to buy needed items immediately and earn rewards for purchases.
- Credit cards can also offer more security than other options, as they protect you from fraud and eliminate the need to carry large amounts of cash.
- If used wisely, it can be an effective credit building tool.

With These Advantages Come Responsibilities

- Using a credit card is just like taking out a loan. If you don't pay your card balance in full each month, you'll start paying interest on that loan.
- Credit cards have to be managed wisely in order for you to avoid paying interest and accruing debt.
- Understand all terms and conditions.
- Stay on top of payments and realize the true cost of purchases made with credit.
- Maximize the benefits of credit while minimizing the risks, to become a responsible credit card carrier.

For more information:

practicalmoneyskills.com/ff22

Glossary of Terms

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

Annual fee: The once-a-year cost of having 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 an individual's credit history, for use by credit card issuers and others considering providing you with a loan.

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

Glossary of Terms, cont.

Credit score: A credit score is a numerical expression primarily based on credit report information typically sourced from credit bureaus. There are many different credit scoring companies; however, 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.

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.