

Lesson 7: Capacity, Character, Collateral, Capital

TOPIC: Credit

OVERVIEW:

Young adults are faced with **credit** offers all the time, and knowing what to do when approached with an offer can mean a major difference in a teen's financial future. This lesson walks students through the process of getting credit, analyzing good and bad credit, and how to manage and harm one's credit. By the end of the lesson, students will demonstrate their understanding of how credit is earned and possess a greater understanding of the consequences of poorly managing one's credit.

OBJECTIVES:

1. Define creditworthiness
2. Evaluate positive and negative types of credit
3. Explain credit factors and risks and how credit scores work
4. Discuss how to maintain or increase credit score
5. Explain how credit is damaged

INDIVIDUAL HANDOUTS:

- The Four Cs of Credit
- The Four Cs Challenge
- Manage or Damage?
- Creditworthiness Comic

GROUP HANDOUTS:

- none

TEACHER PRESENTATION SLIDES:

- Predatory Lending
- Types of Loans (3)
- The Four Cs of Credit
- Credit Report
- Managing Debt

ESSENTIAL QUESTIONS:

- What is credit?
- How can I be creditworthy?
- What are ways to manage my credit?

ASSESSMENT ACTIVITIES:

Pre-Assessment:

- **Activity:** What Is Credit?

Post-Assessment:

- **Handout:** The Four Cs Challenge*
- **Handout:** Manage or Damage?*
- **Handout:** Creditworthiness Comic*

*Money Smart Portfolio Handouts

Time: 75 min

Subject Connections:

- Art
- English Language Arts

Supplies:

- Sticky notes and poster board (optional)
- Projector (for teacher presentation slides)
- Access to the Internet (optional)

Preparation:

- Make copies of student handout
- Set up projector with presentation slides

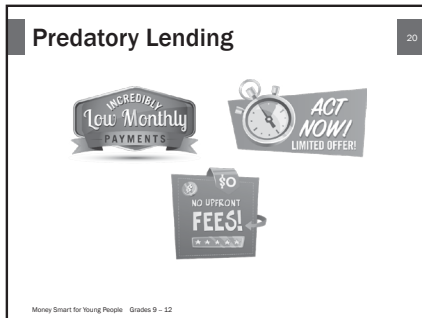
Glossary with key vocabulary 16

Instruction Steps

WARM UP

What is Credit?

15 MINUTES



Open the lesson by displaying the *Predatory Lending* slide.

Ask students to reflect on what the statements on the slide mean, and explain that credit offers are everywhere and that it is important to understand how credit works and not be lured in by predatory advertising (for example: advertising that is intended to exploit others for personal gain or profit). Remind students that, if an offer sounds too good to be true, then it likely is.

Engage the class in a brief discussion about what credit is and factors in deciding whether or not to use credit.

Explain that credit is the ability to borrow money, and that when you borrow money on credit, you are getting a loan. Use the glossary to review with students the definitions of credit and loans.

Ask students to share their ideas about when someone might use credit and borrow money.

Help students understand that saving money and waiting to make a purchase is an alternative to credit. In some cases, though, credit offers the chance to invest in something that has the potential to provide a return greater than the cost of credit, such as a student loan or purchase of a home, in order to increase long-term earning potential. Credit can also help people get through emergencies and unexpected job loss.

Explain that credit is inherently neither good nor bad, but it can be either, depending on how it is used.

GUIDED EXPLORATION

How Credit Works

25 MINUTES

Ask students to think about an instance when they might need to borrow money in the future (for example: when it is something they need but do not have the cash to pay for, such as a home or vehicle). Explain that there are different types of loans depending on an individual's credit needs. These include **credit cards, consumer installment loans, school loans, and home loans or mortgages.**

MONEY SMART TIP!


Refer to Lesson 8, *The Almighty Dollar?*, for more information about credit cards.

Types of Loans 1

21

With a CREDIT CARD, you can...

- Buy goods or services and pay for them over time
- Borrow money for household, family, and other personal expenses
- Get into big trouble if you're not careful with spending
- Either build a positive credit history or damage it depending on how you manage the card.



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Display the three **Types of Loans slides** and walk students through each type of loan. Help students understand that credit cards give you the ongoing ability to borrow money for household, family, and other personal expenses; however, if you're not careful in spending, you can get into big trouble and become burdened with debt.


Bring rent-to-own services into the discussion and have students compare and contrast rent-to-own services versus paying for something with cash or credit card, applying for an installment loan, or saving enough money to purchase the item.

Types of Loans 2

22

With a CONSUMER INSTALLMENT LOAN, you...

- Can pay your personal expenses and your family's expenses
- Can pay the same amount each month in installments for a set period of time
- Can either build or damage credit, by whether you repay the loan on time as you agreed



Money Smart for Young People Grades 9 - 12

Show students that, whereas the rent-to-own payments may seem less expensive, you may end up paying much more for something than if you paid with cash.


Begin introducing the concept of creditworthiness by helping students understand that, in order to borrow money, you have to show that you are able to responsibly pay back the money. Lenders take a risk when loaning you money, and not paying loans on time and in full can influence whether or not you are able to borrow money again in the future.

Types of Loans 3

23

With a HOME LOAN (mortgage), you can...

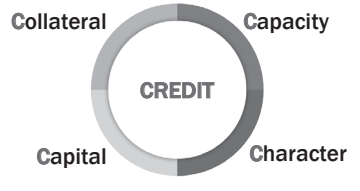
- Borrow money for the purpose of buying a house
- Build positive credit by paying on time
- Damage credit by skipping payments or paying late



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The Four Cs of Credit

24



Money Smart for Young People Grades 9 - 12

Display the **Four Cs of Credit** slide and explain to students that, when you apply for credit, the lender will review the Four Cs to decide whether you are a good credit risk and will be able to successfully pay back the loan. Distribute **The Four Cs of Credit** and **The Four Cs Challenge** handouts and ask for volunteers to read the details for each of the Four Cs to the class. Next, give students time to complete The Four Cs Challenge individually, and then regroup to discuss student answers.

Grade-Level Modifications:

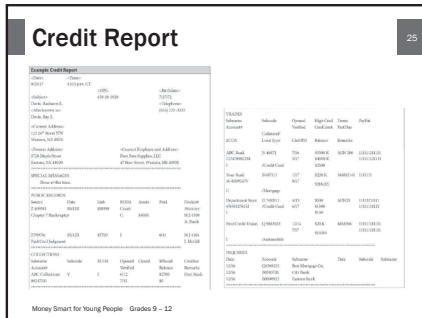
Beginner: Complete **The Four Cs Challenge** handout together as a whole class.

Advanced: Give students the opportunity to practice filling out an application for a credit card, student loan, car, or home.

INDEPENDENT EXPLORATION

Manage and Damage Credit

25 MINUTES



Note: These activities are more independent than the Guided Exploration activities and may be used as homework assignments, collaborative group work, or independent study.

To help assess the Four Cs, explain to students that lenders will review your credit report. Display the **Credit Report** slide to show students an example of what a credit report looks like.

Next, have students review **The Four Cs Challenge** handout, and explain that a credit report is a record of your financial behaviors, and it includes:

- Who you are
- How much debt you have
- Whether you have made payments on time
- Whether there is negative information about you in public records

MONEY SMART TIP!

Share with students the three major credit-reporting agencies: Equifax (www.equifax.com), Experian (www.experian.com), and TransUnion (www.transunion.com).

Next, explain that a credit report is used to calculate a credit score. A great majority of lenders use the FICO[®] credit score, which is a number that ranges from 300 to 850; the higher your score, the greater your creditworthiness and the less risky you are to a lender. A credit score is a quick and easy way for a lender to assess your creditworthiness. A credit score is used to predict how likely an individual is to repay a new loan based on information in his or her credit report. The factors that determine your credit score include payment history (35%), outstanding debt (30%), credit history (15%), pursuit of new credit or credit inquiries (10%), and types of credit in use (10%). Credit is granted based partially on your credit score. Lenders also check your credit score when you apply for a credit card or before you can rent a new apartment. Each time you demonstrate a financial behavior, such as paying bills (whether late or on time) or opening up a new line of credit, your credit score is continually updated to reflect your ability to successfully manage finances.

MONEY SMART TIP!

Share with students the resource website <http://AnnualCreditReport.com> and explain that federal law makes it so everyone can have access to his or her free credit report once every 12 months from each of the credit bureaus.

Distribute the ***Manage or Damage?*** handout and divide the class into pairs. Have pairs discuss each scenario and determine whether the actions are managing or damaging credit.

Invite volunteers to share their assessments and discuss why actions can be helpful or harmful in determining one's creditworthiness.

Managing Debt 26

- Am I overextending myself?
- Have I researched and compared rates (using the APR)?
- Do I have a plan in place for paying off the borrowed money?

Money Smart for Young People • Grades 9 – 12

Next, display the ***Managing Debt*** slide and discuss each of the questions as they relate to the scenarios on the ***Manage or Damage?*** handout. Using the guided prompts below, facilitate a discussion on how to discern if debt is manageable. For additional information on debt management strategies, visit the Federal Trade Commission's Credit and Loans web page at www.consumer.ftc.gov/topics/credit-and-loans.

Am I overextending myself?

Overextending yourself means that you are spending more with credit than what you are able to pay off. Ethan's story is an example of overextension because he has taken on more credit card debt than he can afford to pay off. Rather than managing debt, Ethan's debt is managing him because he is stuck in a cycle of seeking more credit to pay off previously borrowed funds. This type of overextension means that even if Ethan continues to make minimum payments on his balance, as long as he continues to charge more on the card than he pays off, he will never resolve the debt in full. Likewise, Imani has also overextended herself because she did not account for how to manage her cell phone expenses if she lost her source of income. To determine if borrowing money could lead to overextension, it is helpful to ask yourself the following questions: If something significant in my finances changed today, such as a job loss or death in the family, would I still be able to pay back my debt? Do I have enough savings to cover a financial emergency? Will I have trouble paying my other bills if I choose to borrow money?

Have I researched and compared interest rates?

People pay interest on the money they borrow. The more time it takes to pay back borrowed money, the more a person pays in interest. To successfully manage debt, it is necessary to research loan options and select one with the lowest rates. The cost of borrowing money is expressed as the Annual Percentage Rate (APR). For instance, Eli reviewed three different credit card options before deciding to open one. This means he conducted research and analyzed the terms of each. By researching ahead of time, Eli understood exactly what he was committing to and could develop a plan for paying off the debt by paying the bill in full every month. You can check with banks in your community to research credit card options, and you can find resources available online to assess your choices. Your time shopping

around can save you money. Even if an advertisement suggests a card is a great deal, you may be able to find a card that meets your needs at a lower cost through a little research.

Do I have a plan in place for paying off the borrowed money?

Before borrowing money, it is important to define a plan for paying off the debt prior to taking it on. In Ethan’s case, the lack of a plan led to a debt cycle that is difficult to get out of. Likewise, Imani didn’t fully plan for how to handle her expenses in the event of no longer working. Thinking about what to do if she lost her sole source of income is an important part of developing a plan before committing to credit. In contrast to Ethan and Imani, Eli researched credit terms and developed a strategy to pay off his bill in full each month. In addition to paying off credit card balance each month, other strategies in a debt management plan may include the following: paying attention to credit history and checking credit score regularly, tracking borrowing habits and adjusting to fit financial needs, and shopping around for the best terms before seeking credit.

MONEY SMART TIP!

Have students read an article about how social media can influence lenders’ perceptions of you, such as *Could Your Facebook Friends Affect Your Creditworthiness?* (<http://pittsburgh.cbslocal.com/2013/09/04/could-your-facebook-friends-affect-your-creditworthiness>). Use the article as a discussion tool to address the ramifications of sharing personal information online. Refer to Lesson 20, *Protect Yourself*, for more information on consumer protection.

WRAP UP
How to be Creditworthy

10 MINUTES

Close the lesson by having students complete the *Creditworthiness Comic* handout. Alternatively, students may use the prompts from the handout to create a digital comic strip or perform an in-person skit. Additional time will be needed for these alternate activities.

Perform a Skit

Arrange students into small groups and have each member claim a role in the skit (e.g., main character, supporting character, narrator). Working collaboratively, have groups write a script for their skit using best practices in narrative writing. For example, skits should include, at a minimum, the following: (1) an introduction or beginning to the story, (2) a middle in which there is conflict or action that needs to be solved, and (3) an ending where the resolution takes place and the characters(s) have demonstrated creditworthiness.

In addition to using the *Creditworthiness Comic* handout in the *Money Smart Portfolio*, have students publish their creditworthy comics in the school newspaper or classroom blog, or compile them into one packet that can be shared with families and peers. For further extension, have students write a short story or narrative to accompany their comic.

Extended Exploration

Note: Use the following ideas to extend financial literacy concepts throughout the school year within core content areas through English Language Arts, Math, Social Studies and Economics, and Technology activities, projects, and discussions. Duration of activities will vary.

ENGLISH LANGUAGE ARTS

Writing Prompts:

How do you know which credit offers are legitimate? How could you tell if an offer was deceptive?

What are some consequences that might arise if one is living only on credit?

What are the consequences of mismanaging credit?

Suggested Readings:

Steps to Get and Keep a Good Credit Score by Consumer Finance.gov: A brochure with steps to take to maintain a good credit score by paying attention to your credit report. http://files.consumerfinance.gov/f/2011/07/CFPB_20110719_CreditScoresFlyer.pdf

Could Your Facebook Friends Affect Your Creditworthiness? by Pittsburgh CBS Local News: An article exploring how sharing information on social networks may impact your creditworthiness. <http://pittsburgh.cbslocal.com/2013/09/04/could-your-facebook-friends-affect-your-creditworthiness/>

MATHEMATICS

Activity/Project Ideas:

Challenge students to calculate interest on ongoing credit card balances to demonstrate the true cost of credit. For example: have students play the “I Paid How Much?” quiz from **TheMint.org**, which presents different finance charges for students to explore.

www.themint.org/teens/i-paid-how-much.html

SOCIAL STUDIES AND ECONOMICS

Discussion Topics:

Debate and discuss the ways consumer credit card debt impacts the economy. For example: explore the dichotomy between fueling the economy through credit consumption versus how that same consumption leaves consumers with massive amounts of debt.

Is buying on credit hurting or helping the economy?

Is it hurting or helping the consumer?

Invite students to bring the discussion of credit home and to ask parents and family members if they use credit cards or borrow money for large purchases such as a home or vehicle.

Activity/Project Ideas:

Encourage students to research laws that are in place to help protect consumers from predatory lenders. Have students share what they learn with the class. For example: have students visit Consumer Complaints and Protection at **USA.gov** (**www.usa.gov/consumer**) and the Federal Trade Commission’s Bureau of Consumer Protection at **FTC.gov**. **www.ftc.gov/about-ftc/bureaus-offices/bureau-consumer-protection**

Review and discuss historical mortgage lending practices and how home loans contributed to the financial crisis of 2008. Show students all or part of the hour-long PBS video, Inside the Meltdown, which provides an overview of the crisis (**www.pbs.org/wgbh/pages/frontline/meltdown/view**), or review Chairman Ben Bernanke’s speech at the Federal Reserve System Conference on Housing and Mortgage Markets on December 4, 2008. **www.federalreserve.gov/newsevents/speech/bernanke20081204a.htm**

TECHNOLOGY

Online Resources:

Annual Credit Report: A website allowing you to obtain a free credit report every 12 months. **www.annualcreditreport.com/index.action**

Learn more about credit reports by visiting the websites of the three major nationwide credit-reporting agencies:

Equifax (**www.equifax.com**), Experian (**www.experian.com**), and TransUnion (**www.transunion.com**).

Spending Challenge by The Mint: A question-and-answer challenge that simulates the decision-making process when using credit.
www.themint.org/teens/take-the-spending-challenge.html

Credit and Loans by the Federal Trade Commission: A web resource listing tips for how to assess credit and loan offers, including information on credit reports and credit scores.
www.consumer.ftc.gov/topics/credit-and-loans

Classroom activities from the Consumer Financial Protection Bureau (CFPB)

The CFPB has developed a set of classroom activities to help teachers develop and support the building blocks of financial capability in their students. Each activity is designed to be completed within a single class period and includes a teacher guide and supporting student material. Some specific activities that are relevant to this lesson include:

Distinguishing between credit myths and realities

Student analyze and make judgements about credit and borrowing statements in order to better understand the reality of debt.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/distinguishing-between-credit-myths-realities/

Differentiating between secured and unsecured loans

Students explore characteristics of secured or unsecured types of credit by playing a sorting game.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/differentiating-secured-unsecured-loans/

Role-playing borrowing and lending

Students take on the role of a borrower or a lender to pose questions, apply formulas to calculate interest, and evaluate data to inform borrowing and lending decisions.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/role-playing-borrowing-lending/

Answer Key

Student Handout 1:

The Four Cs Challenge

1. Employment Information: Capacity
2. Monthly Income and Combined Housing Expense Information: Capacity
3. Declarations: Character
4. Assets (for example: checking and savings account, investment products, and vehicle) and Liabilities (for example: automobile or other loans, charge accounts, and other forms of debt): Capital and Collateral

Student Handout 2:

Manage or Damage?

Eli's Scenario: MANAGE. Eli pays attention to what he uses his credit card for and pays the bill in full at the end of every month.

Imani's Scenario: DAMAGE. Imani did not think long-term when she committed to a two-year contract. As a result, she is unable to meet her repayment responsibilities.

Ethan's Scenario: DAMAGE. Ethan failed to realize that, just because credit was available to him, he didn't need to use it all. He overextended himself and is considering going even deeper in debt to pay off his existing debt.

Student Handout 1:

Creditworthiness Comic.

Answers will vary. Use handout to assess student ability to demonstrate what it means to be creditworthy.



Lesson 7: Capacity, Character, Collateral, Capital

THE FOUR CS OF CREDIT

Name: _____

CAPACITY

Capacity refers to your present and future ability to meet your payments. A lender wants to see that you have a job and you have held the same job or the same type of job for at least a year.

Lenders may ask:

- Do you have a job?
- How much money do you make each month?
- What are your monthly expenses?

COLLATERAL

Collateral refers to property or assets you can offer to secure the loan.

Collateral is security you provide the lender. Giving the lender collateral means that you pledge an asset that you own (for example: a car) to the lender with the agreement that it will be the repayment source in case you cannot repay the loan.

Lenders may ask:

- Do you have assets to secure the loan beyond your capacity to pay it off?

CREDIT SCORE

A credit score is used to predict how likely an individual is to repay a new loan based on information in his or her credit report. Your credit score is a number that is developed by a computer model based on the information in your credit report. It is intended to predict, for example, how likely you are to repay your debts. Keep in mind that credit scores may vary depending on which scoring services prepared them and which of the many different credit scoring models is being used. As an example, the factors that determine your credit score in one commonly used model include:

CHARACTER

Character refers to how you have paid your bills or debts in the past.

Lenders may ask:

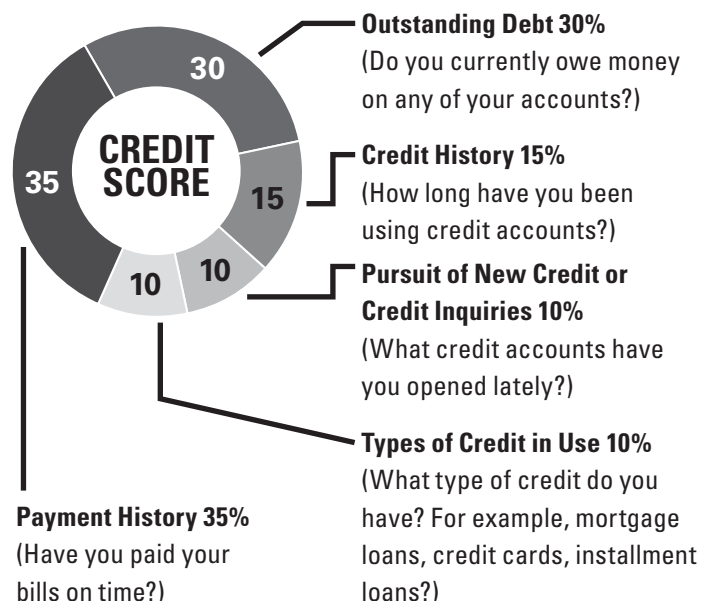
- Have you had credit in the past?
- How many credit accounts do you have?
- Have you ever filed for bankruptcy, had property repossessed, or made late payments?

CAPITAL

Capital refers to the value of your assets and your net worth. Lenders want to determine the value of your assets (things you own that have financial value). Lenders will also compare the value of your assets and the amount of debt you have. This is called *net worth*. A positive net worth demonstrates your ability to manage your money.

Lenders may ask:

- How much money do you have in your checking and savings accounts?
- Do you have investments (for example: stocks, bonds) or other assets (for example: a car)?





Lesson 7: Capacity, Character, Collateral, Capital

THE FOUR CS CHALLENGE

Name: _____

Lenders often determine an applicant’s Four Cs during the loan application process. The following information is taken from the Uniform Residential Loan Application, which is the standard form used for mortgage loan applications. The questions are similar to applications for other types of loans.

Review each section and match the required information with the appropriate C: Capital, Collateral, Character, or Capacity. There may be more than one correct answer.

1. Employment Information: _____

| | | |
|---------------------------------|--|----------------------------------|
| Name & Address of Employer | <input type="checkbox"/> Self Employed | Dates (from – to) |
| | | Monthly Income |
| Position/Title/Type of Business | | Business Phone (incl. area code) |
| Name & Address of Employer | <input type="checkbox"/> Self Employed | Dates (from – to) |
| | | Monthly Income |
| Position/Title/Type of Business | | Business Phone (incl. area code) |

2. Monthly Income and Combined Housing Expense Information: _____

| Gross Monthly | Borrower | Co-Borrower | Total |
|---|-----------|-------------|-----------|
| Base Empl. Income* | \$ | \$ | \$ |
| Overtime | | | |
| Bonuses | | | |
| Commissions | | | |
| Dividends/Interest | | | |
| Net Rental Income | | | |
| Other) before completing, see the notice in “describe other income,” below” | | | |
| Total | \$ | \$ | \$ |

| Combined Monthly Housing Expense | Borrower | Co-Borrower |
|----------------------------------|-----------|-------------|
| Rent | \$ | \$ |
| First Mortgage (P&I) | | |
| Other Financing (P&I) | | |
| Hazard Insurance | | |
| Real Estate Taxes | | |
| Mortgage Insurance | | |
| Homeowner Assn. | | |
| Dues Other | | |
| Total | \$ | \$ |



Lesson 7: Capacity, Character, Collateral, Capital

THE FOUR CS CHALLENGE *(continued)*

Name: _____

3. Declarations: _____

| DECLARATIONS | | Borrower | | Co-Borrower | |
|--|--|--------------------------|--------------------------|--------------------------|--------------------------|
| If you answer "Yes" to any questions a through e, please use continuation sheet for explanation. | | Yes | No | Yes | No |
| a) Are there any outstanding judgments against you? | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b) Have you been declared bankrupt within the past 7 years? | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c) Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years? | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d) Are you a party to a lawsuit? | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| e) Have you directly or indirectly been obligated on any loan which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment? | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <p>(This would include such loans as home mortgage loans, SBA loans, home improvement loans, educational loans, manufactured (mobile) home loans, any mortgage, financial obligation, bond, or loan guarantee. If "Yes," provide details, including date, name, and address of Lender, FHA or VA case number, if any, and reasons for the action.)</p> | | | | | |

4. Assets (for example: checking and savings account, investment products, and vehicle) and Liabilities (for example: automobile or other loans, charge accounts, and other forms of debt): _____

| Assets | Cash or Market Value | Liabilities and Pledged Assets. List the creditor's name, address, and account number for all outstanding debts, including automobile loans, revolving charge accounts, real estate loans, alimony, child support, stock pledges, etc. Use continuation sheet, if necessary. Indicate by (*) those liabilities, which will be satisfied upon sale of real estate owned or upon refinancing of the subject property. | | |
|---|----------------------|---|---|-----------------------|
| Description | | | | |
| Cash deposit toward purchase held by: | \$ | | | |
| List checking and savings accounts below | | LIABILITIES | Monthly Payment & Months Left to Pay | Unpaid Balance |
| Name and address of Bank, S&L, or Credit Union | | Name and address of | \$ Payment/Months | \$ |
| Acct. no. | \$ | Acct. no. | | |
| Name and address of Bank, S&L, or Credit Union | | Name and address of | \$ Payment/Months | \$ |
| Acct. no. | \$ | Acct. no. | | |



Lesson 7: Capacity, Character, Collateral, Capital MANAGE OR DAMAGE?

Name: _____

Sample credit report:

| Example Credit Report | | | | | | |
|--------------------------------|---------------|-------------|------------------------------------|-----------------|----------|------------|
| <Date> | <Time> | | | | | |
| 9/20/17 | 12:15 p.m. CT | | | | | |
| | | <SSN> | | <Birthdate> | | |
| <Subject> | | 123-45-6789 | | 7/27/72 | | |
| Davis, Rashawn E. | | | | <Telephone> | | |
| <Also known as> | | | | (555) 222 -3333 | | |
| Davis, Ray E. | | | | | | |
| <Current Address> | | | | | | |
| 123 24 th Street NW | | | | | | |
| Western, NE 12345 | | | | | | |
| <Former Address> | | | <Current Employer and Address> | | | |
| 3728 Maple Street | | | First Rate Supplies, LLC | | | |
| Eastern, NE 54321 | | | 47 First Street, Western, NE 12345 | | | |
| ***** | | | | | | |
| SPECIAL MESSAGES | | | | | | |
| None at this time. | | | | | | |
| ***** | | | | | | |
| PUBLIC RECORDS | | | | | | |
| Source | Date | Liab | EOCA | Assets | Paid | Docket# |
| Z 409581 | 10/12R | \$18930 | Court | | | Attorney |
| Chapter 7 Bankruptcy | | | C | \$4000 | | 012-1930 |
| | | | | | | A. Finch |
| ***** | | | | | | |
| COLLECTIONS | | | | | | |
| Subname | Subcode | EOCA | Opened | Closed | \$Placed | Creditor |
| Account# | | | Verified | | Balance | Remarks |
| ABC Collections | Y | I | 6/12 | | \$2780 | First Bank |
| 09247501 | | | 7/15 | | \$0 | |
| ***** | | | | | | |
| TRADES | | | | | | |
| Subname | Subcode | Opened | High Cred | Terms | PayPat | |
| Account# | | Verified | CredLimit | PastDue | | |
| | Collateral/ | | | | | |
| EOCA | Loan Type | Clsd/PD | Balance | Remarks | | |



Lesson 7: Capacity, Character, Collateral, Capital MANAGE OR DAMAGE? *(continued)*

Name: _____

| Example Credit Report | | | | | |
|-------------------------------------|---------------------------|-------------------|--------------------------|----------|----------------------------|
| ABC Bank 123478901234 | N 46871 | 7/16 5/17 | \$3500 K \$4000 K | MIN 200 | 11111111111 11111121111 |
| I | /Credit Card | | \$2580 | | |
| Your Bank 16-82093475 | B 687111 | 1/17 8/17 | \$220 K \$218,021 | 360M1141 | 1111111 |
| C | /Mortgage | | | | |
| Department Store 676518276152 | D 7483111 /Credit Card | 4/15 6/17 | \$500 \$1500 \$150 | MIN25 | 11113211111 1111111121 |
| I | | | | | |
| First Credit Union | Q 9863522 | 12/14 7/17 | \$20 K \$10203 | 60M396 | 11111111111 11111111111 |
| I | /Automobile | | | | |
| ***** | | | | | |
| INQUIRIES | | | | | |
| Date | Subcode | Subname | Date | Subcode | Subname |
| 12/16 | Q8398233 | Best Mortgage Co. | | | |
| 12/16 | B0383726 | City Bank | | | |
| 12/16 | B0090923 | Eastern Bank | | | |
| ***** | | | | | |



Lesson 7: Capacity, Character, Collateral, Capital **MANAGE OR DAMAGE?** *(continued)*

Name: _____

Read the scenarios below and decide if each person's actions are managing or damaging credit.

Select the correct answer and explain your reasons.

Eli, 22 years old "I researched three different credit card options before I decided to get one about a year ago. I use it mostly to buy bigger items. Like last week I bought a new microwave for my apartment and put it on my credit card. I get a bill at the end of every month and then I'll go online and pay it in full. I don't want to have to worry about the credit card adding up to more than I have so I just think it's easier to pay it off every month."

**Manage
or
Damage**

Why?

Imani, 18 years old "I bought a new cell phone after getting a job at the movie theater on the weekends. At first, I made all of my payments on time. But I ended up having to quit my job because I was having trouble in school and needed more time to study and get my homework done. I haven't been able to pay my phone bill on time for the last three months. I signed a two-year contract for my phone because the phone company gave me a discount if I did, but now I don't know if I can make it the full two years."

**Manage
or
Damage**

Why?

Ethan, 19 years old "When I started college last year, I couldn't believe how many credit card applications were offered to me. I thought, hey, why not? I'm going to need money for books and food and probably a football game or two, so I went ahead and applied for them all...and got approved! Now, all my cards are maxed out and I can't use them anymore because I've hit my credit limit. I let a few of the payments slip last month because I didn't have the money, but I'm thinking if I can get a new card then I can get more money to pay off my other ones."

**Manage
or
Damage**

Why?



Lesson 7: Capacity, Character, Collateral, Capital **MANAGE OR DAMAGE?** *(continued)*

Name: _____

Think of an instance, action, or behavior that represents being creditworthy, such as successfully paying off a vehicle loan or making monthly payments on time, and illustrate a story about your creditworthy idea in the comic strip below.

Box 1: Use this space to illustrate the beginning of your story, such as who is demonstrating the creditworthy act (your main character) and where the story takes place (at home, at a bank, at a store).

Box 2: Use this box to illustrate the middle of your story, or where all the action takes place.

Box 3: Draw the end, or resolution, of your story here and how your main character displayed creditworthiness.