



## Lesson 9: Give Credit Where Credit is Due

# CREDIT VOCABULARY

Use with *Understanding Credit Jigsaw* activity. One copy per group.

**Credit:** An agreement to provide goods, services, or money in exchange for future payments with interest by a specific date or according to a specific schedule. The use of someone else's money for a fee.

There are many types of credit, but the two most common types are:

- **Installment Loans:** A set amount of money lent to you for a specific purpose.
  - Student Loans
  - Auto Loans
  - Mortgage Loans
- **Revolving Credit:** A line of credit you can keep using after paying it off. You can make purchases with it as long as the balance stays under the credit limit, which can change over time. Credit cards are the most common type of revolving credit.

**Credit Card:** A plastic card that authorizes the purchase of goods and services in exchange for future payment with interest, according to a specific schedule.

**Credit Report:** A credit report contains information about your credit — and some bill repayment history — and the status of your credit accounts. This information includes how often you make your payments on time, how much credit you have, how much credit you have available, how much credit you are using, and whether a debt or bill collector is collecting on money you owe. Lenders use these reports to help them decide if they will loan you money and how much money it will cost you. The cost is usually reflected by the interest rates they will offer you. Credit reporting companies (also known as credit bureaus or consumer reporting agencies) compile these reports.

**Debt:** Something owed, usually measured in dollars.

Source: [www.consumerfinance.gov/askcfpb/309/what-is-a-credit-report.html](http://www.consumerfinance.gov/askcfpb/309/what-is-a-credit-report.html)



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# THE PROS & CONS OF CREDIT

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### Pros of Credit

▪ **Immediate Access to Money:**

Credit can help with an expensive, unexpected emergency and give you the flexibility to pay it off over time.

▪ **Security:** Lose cash, and it's gone. Lose a credit card and it can be cancelled. Also, if you report your stolen credit card promptly, you're protected against its unauthorized use.

▪ **Convenience:** Credit cards are accepted worldwide.

▪ **Rewards:** Many credit cards have rewards programs that earn you benefits such as free travel.

### Cons of Credit

▪ **Interest:** Using credit means that you are borrowing money and you must return it with interest, if you don't repay by the due date.

▪ **Fees:** You may have to pay certain additional fees with some credit products, such as an annual fee.

▪ **Debt:** Often, as a result of late payments, many people find themselves sunk in credit card debt with no way out. Late fees, piling interest, and other charges make it harder and harder to get out of debt.

▪ **Overspending:** When you have credit, it is easy to overuse it. When you aren't exchanging actual money, it feels like you're not paying anything at all. Soon enough, the charges catch up and sink you in debt.



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# HOW TO BUILD GOOD CREDIT

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### HOW TO BUILD GOOD CREDIT

**Here are some tips to help you establish good credit:**

- Pay your loans, bills, and other debts on time. This will show you are responsible for your finances.
- If you have a credit card, try to charge only what you can afford to pay off immediately or very soon.
- Review your credit report for errors.
- Think carefully before you take out new credit cards or loans. Multiple credit inquiries can lower your credit score.
- You can apply for a bank loan secured by the funds you have on deposit. You can also ask a friend or relative who has good enough credit to cosign a loan, which means that he or she shares the liability for the loan with you. Before you apply for credit, however, make sure you understand the terms.

Patience is important. It takes time to establish credit, to build a record of consistency in making payments that demonstrates your creditworthiness. And it is much better to go slowly and assemble a strong credit record than to apply for too many credit cards or a loan that is larger than you can handle. Remember that credit represents real money and has to be repaid with interest. Those are the keys to establishing good credit.

### THE BENEFITS OF GOOD CREDIT

**In general, the better your credit history and credit score:**

- The better your chances are of getting a loan, including a credit card.
- The more likely you will be offered an attractive interest rate (this will save you money).

Credit reports and scores also can be considered when you apply for a job, an insurance policy or an apartment.

Sources: The FDIC, FTC, and the Federal Reserve Bank of Philadelphia



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# PRACTICES THAT HURT CREDIT

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### PRACTICES THAT HURT CREDIT

When you borrow money, you will generally sign an agreement to repay the money you borrow (plus interest) according to a specific schedule.

**Some of the ways that you can harm your credit include:**

- Not repaying a loan on time as you agreed
- Not repaying other debts (such as phone or utility bills) on time
- Borrowing as much (or more) money on your credit card as your lender agreed to lend you (having an outstanding balance that is close the credit limit)
- Applying for a lot of credit over a short period of time

### THE DRAWBACKS OF BAD CREDIT

**If you have a poor credit history, you are more likely to:**

- Not be approved for a loan or credit card
- If you are offered a loan, you will likely pay more money in interest
- Pay more money for insurance
- Have an application to rent an apartment be denied, or if it is approved, pay a larger security deposit

Sources: The FDIC, FTC, and the Federal Reserve Bank of Philadelphia



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# UNDERSTANDING CREDIT ANTICIPATION GUIDE

Name: \_\_\_\_\_

**Directions:** Read the statement, then write T for TRUE or F for FALSE after each statement.

Credit Statement	Before	After
1. Credit cards are the only type of credit available.		
2. One reason why people use credit is to help pay for an unexpected emergency expense.		
3. One reason why people don't like using credit is that few businesses accept credit.		
4. One way to build credit is to request your credit report once a month.		
5. Credit reports include information on credit card accounts and student loans.		
6. Credit cards allow you to miss several payments without penalties.		
7. Negative credit information stays on your credit report for only two years.		
8. When credit is used, a portion of your future income is spent/committed.		