



# Module 2





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# Keys to Your Financial Future

## **Module 2-Good Credit:**

### *Your score in the game of life*

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### **Session Outcomes**

By the end of the training, participants will be able to:

1. Understand good credit as a productive asset and explain the ways to build and maintain good credit histories and scores.
2. Explain the difference between credit and debt.
3. Explain the way credit decisions are made using the “Four Cs” framework.
4. Describe the difference between secured and unsecured debt.
5. List how and where to get credit reports and credit scores.
6. Read and interpret information on a credit report.
7. Explain how credit scores are created and used.

### **Materials Needed**

- Flip charts
- Markers
- Tape
- Card stock with question (Section 1)
- Scripts for mini-skits (Section 2)
- Fake money in \$10 and \$100 increments (Section 2)
- Large self-adhesive notes (10 for each small group) or brightly colored paper (Section 5)
- Example Credit Reports (Section 7)
- Other supplies for teach back (Section 8)
- Credit scoring card sets printed on 2” X 3 ½” business cards (Avery 8371) (Section 9)
- Brightly colored paper for participants to make airplanes (Section 10)
- Flip charts or white boards
- Markers for facilitator and participants
- Tape
- Session Evaluations

### **Prepared visual aids including:**

- Credit Matters (Visual Aid 2.1)

- Credit is . . . (Visual Aid 2.2)
- Types of Credit (Visual Aid 2.3)
- How Credit Works (Visual Aid 2.4)
- Key Terms 1 (Visual Aid 2.5)
- Key Terms 2 (Visual Aid 2.6)
- Answers to KEY ACTIVITY—Amortized versus Revolving Credit (Visual Aid 2.7)
- Credit vs. Debt (Visual Aid 2.8)
- How Credit May Help You (Visual Aid 2.9)
- When You Owe Money . . . (Visual Aid 2.10)
- Debt to Income Ratio (Visual Aid 2.11)
- Gross Income (Visual Aid 2.12)
- Debt to Income Limits (Visual Aid 2.13)
- How to Use the Debt to Income Ratio (Visual Aid 2.14)
- Why Credit Reports ARE Important (VA 2.15)
- The Credit Reporting Agencies (VA 2.16)
- Can You Have a Credit Report if You are Under 18? (VA 2.17)
- Instruction for Teach Back (Visual Aid 2.18)
- Credit and the Opportunity Passport™ (Visual Aid 2.19)
- FICO Score Distribution (Visual Aid 2.20)

**Examples are provided in the PowerPoint Slides that accompany this module. They can be transferred to flip chart paper or used as a slide show.**

## Overview of Key Activities

<b>Key Activities</b>	<b>Covered in the Training</b>	<b>NOT Covered in the Training</b>
KEY ACTIVITY—Amortized Loan versus Revolving Credit	X (optional)	
KEY ACTIVITY—The Trouble with Credit Case Studies	X (optional)	
KEY ACTIVITY—Understanding the Debt-to-Income Ratio	X	
KEY ACTIVITY—Using the Debt-to-Income Ratio	X (optional)	
KEY ACTIVITY—Reading a Credit Report	X	
KEY ACTIVITY—Know the 30% Limit		X
KEY ACTIVITY—What Makes Your Score Go Up or Down?	X	
KEY ACTIVITY—Understanding the Credit Utilization Rate		X

## Keys to Your Financial Future Steps

This is a list of the steps to building the Asset Building Plan within **Module 2: Good Credit: Your score in the game of life.**

- Keys to Your Financial Future Step 2.1: Calculate Your Debt-to-Income Ratio
- Keys to Your Financial Future Step 2.2: Order Your Credit Report
- Keys to Your Financial Future Step 2.3: Credit Report Review Checklist
- Keys to Your Financial Future Step 2.4: Disputing Errors on Your Credit Report
- Keys to Your Financial Future Step 2.5: Credit Repair and Credit Building Plan

## Keys to Timing the Facilitation of the Module

This module contains 3 hours-worth of material. This provides the facilitator with options for:

1. Keeping the training as is leaving out the optional sections.
2. Replacing sections of the training determined less relevant for the young people they serve with other material.
3. Adding another session to ensure young people have ample time to explore this topic.

Section within Module	Section Titles	Time Without Optional Sections	Optional Sections
Section 1	<b>Credit</b> <ul style="list-style-type: none"> <li>▪ Vote with Your Body</li> </ul>	10 minutes	
Section 2	<b>Credit: Borrowing Money</b> <ul style="list-style-type: none"> <li>▪ Facilitated Discussion</li> <li>▪ Presentation</li> <li>▪ Mini Skit</li>   <li>▪ Exercise in Pairs (<b>OPTIONAL</b>)</li> </ul>	20 minutes	10 minutes
Section 3	<b>The Trouble with Some Credit (OPTIONAL)</b> <ul style="list-style-type: none"> <li>▪ Case Study</li> </ul>		15 minutes
Section 4	<b>Credit versus Debt</b> <ul style="list-style-type: none"> <li>▪ Facilitated Discussion</li> </ul>	5 minutes	
Section 5	<b>How Credit Decisions are Made</b> <ul style="list-style-type: none"> <li>▪ Brainstorm</li> <li>▪ Role Play (<b>Optional</b>)</li> </ul>	5 minutes	15 minutes
Section 6	<b>Capacity</b> <ul style="list-style-type: none"> <li>▪ Large Group Exercise</li> <li>▪ Exercise in Pairs (<b>Optional</b>)</li> </ul>	10 minutes	10 minutes

<b>Section within Module</b>	<b>Section Titles</b>	<b>Time Without Optional Sections</b>	<b>Optional Sections</b>
Section 7	<b>Character Part 1: Credit Reports</b> <ul style="list-style-type: none"> <li>▪ Review an Example</li> <li>▪ Reading a Credit Report</li> <li>▪ Presentation</li> </ul>	30 minutes	
Section 8	<b>Repairing, Building and Maintaining Good Credit</b> <ul style="list-style-type: none"> <li>▪ Teach Back by Creating Commercials, Billboards, Raps or Jingles</li> <li>▪ Presentation</li> </ul>	20 minutes	
Section 9	<b>Character Part 2: Credit Scores (OPTIONAL)</b> <ul style="list-style-type: none"> <li>▪ Facilitated Discussion</li> <li>▪ Exercise in Triads</li> <li>▪ Stand Up, Sit Down (Voting by standing)</li> </ul>		20 minutes
Section 10	<b>Closing (OPTIONAL)</b> <ul style="list-style-type: none"> <li>▪ Most Surprising Thing Airplane</li> </ul>		5 to 10 minutes depending on group size
<b>Time estimate</b>		<b>100 minutes Not including 2, 10 minute breaks</b>	<b>80 minutes Not including breaks</b>

## Facilitation Materials—Module 2: Good Credit: Your score in the game of life

Please note that the numbers indicating different sections in the facilitator’s guide do not correspond to section numbers in the participant workbook. These are included to help you keep track of the overall order of activities in the facilitator’s guide and during the training. Please consult the “pages in the participant workbook” section at the beginning of each activity as well as the page number references throughout the instructions to ensure you are properly referencing the participant workbook.

<b>Section #1: Credit</b>	
<b>Estimate of Time:</b> 10 minutes	<b>Pages in Participant Workbook:</b> <b>Module 2:1-3</b>
<b>Materials Required:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Blank flip charts for recording participant responses</li> <li><input type="checkbox"/> Markers and tape</li> <li><input type="checkbox"/> Card stock with question sets. Use like color paper for each set.</li> <li><input type="checkbox"/> Card sets (see template following the section). One set for each group of participants (participants are in pairs)</li> <li><input type="checkbox"/> Prepared visual aid: Credit Matters (Visual Aid 2.1)</li> <li><input type="checkbox"/> Prepared visual aid: Credit is . . .(Visual Aid 2.2)</li> </ul>	
<b>Facilitator Instructions</b>	<b>Materials, Visual Aids &amp; Notes</b>
<p><b><u>Vote with Your Body</u></b> Use the following instructions to facilitate the opening activity.</p> <p><b><i>Note to Facilitator:</i></b> Before the session, complete each set of choices on card stock. Hang them so only one set can be viewed at a time.</p> <ul style="list-style-type: none"> <li>▪ Instruct participants to stand under the sign they <b>most agree with</b>.</li> <li>▪ Reveal one set of choices at a time. <ul style="list-style-type: none"> <li><b>Set 1: Credit is generally good. VS Credit is generally bad.</b></li> <li><b>Set 2: Credit is an asset. VS Credit is NOT an asset.</b></li> <li><b>Set 3: Credit is too complicated to understand. VS Credit is a financial tool.</b></li> <li><b>Set 4: “I am too young to worry about credit.”</b>  <b>“I never want to use any credit.”</b>  <b>“This information does not apply to me.”</b>  <b>“I can’t wait to learn more about this topic.”</b></li> </ul> </li> <li>▪ After each set, ask at least one participant to explain her/his choice.</li> <li>▪ Try not to set this up as a debate; facilitate a dialogue.</li> </ul>	<p>Card stock with question sets. Use like color paper for each set. Hang the cards far enough apart to make the separation between or among the groups clear, but close enough to facilitate a quick dialogue among the groups.</p>

**Section #1: Credit****Summarize using the following:**

- You may have many associations with credit.
- Most of these come from your experiences or the experiences of the people you know.
- Many people have gotten into trouble with credit.
- But credit can be useful. In fact, good credit is a productive asset.
- Whether you want to use credit or not, credit will matter to you.
- Credit matters if you want or think you may one day want:
  - A job
  - An apartment
  - A car
  - Insurance
  - Education or training after high school
  - Utilities
  - A cell phone
  - A house
- The trouble with credit is that it can be confusing.
- And one of the most confusing aspects of credit is how the term “credit” is used. The term credit can mean a lot of different things.
- Review uses of the term “credit.”

**Pages 1-2****Credit Matters (Visual Aid 2.1)****Credit is . . . (Visual Aid 2.2)****Page 3**



<b>Section #2: Credit: Borrowing Money</b>	
<b>Estimate of Time:</b> 20 minutes	<b>Pages in Participant Workbook:</b> Module 2:4-10
<b>Materials Required:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Blank flip charts for recording participant responses</li> <li><input type="checkbox"/> Markers and tape</li> <li><input type="checkbox"/> Scripts for mini-skits (see template following the section)</li> <li><input type="checkbox"/> Fake money in \$10, and \$100 increments</li> <li><input type="checkbox"/> Prepared visual aid: Types of Credit (Visual Aid 2.3)</li> <li><input type="checkbox"/> Prepared visual aid: How Credit Works (Visual Aid 2.4)</li> <li><input type="checkbox"/> Prepared visual aid: Key Terms 1 (Visual Aid 2.5)</li> <li><input type="checkbox"/> Prepared visual aid: Key Terms 2 (Visual Aid 2.6)</li> <li><input type="checkbox"/> Prepared visual aid: Answers to KEY ACTIVITY—Amortized versus Revolving Credit (Visual Aid 2.7)</li> </ul>	
<b>Facilitator Instructions</b>	<b>Materials, Visual Aids &amp; Notes</b>
<p><b>Facilitated Discussion</b></p> <p>Use the following talking points and questions to facilitate a discussion.</p> <p><b>? <i>What is an opportunity cost?</i></b></p> <p>After getting a few responses, summarize by stating:</p> <ul style="list-style-type: none"> <li>○ <i>The opportunity cost is the cost of what you are giving up when you make a choice. Every choice has opportunity costs. Economists would say the opportunity cost is the cost of the next best alternative you are forgoing when you make a choice.</i></li> </ul> <p><b>? <i>What are the opportunity costs of using credit?</i></b></p> <p>After getting a few responses, summarize by stating:</p> <ul style="list-style-type: none"> <li>○ <i>When using credit to buy something, one opportunity cost is that you pay more for that thing. Borrowing money costs more money.</i></li> <li>○ <i>Another opportunity cost is that you are obligating future income. When you tie up income you haven't yet earned, you may decrease your options in the future.</i></li> </ul> <p><b>Presentation</b></p> <p>Use the follow talking points to present information about types of credit.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> There are two different major ways to categorize credit. <ul style="list-style-type: none"> <li><input type="checkbox"/> Installment versus revolving</li> <li><input type="checkbox"/> Secured versus unsecured</li> </ul> </li> <li><input type="checkbox"/> With an installment loan, you are approved for a specific loan amount taken out for a specific period of time. The amount you owe each month is calculated when you take out the loan.</li> </ul>	<p>Write participant responses on flip chart.</p> <p>Page 4</p> <p>Write participant responses on flip chart.</p> <p>Types of Credit (Visual Aid 2.3)</p>

## Section #2: Credit: Borrowing Money

### ? *What are examples of installment credit?*

After getting a few responses, summarize by stating:

- *Car loan, home loan, business loan, student loan, personal loan*

- With revolving credit, you are approved for a credit limit. You can borrow any amount up to the credit limit. What you pay back each month varies depending on how much you have borrowed during the month.

### ? *What are examples of revolving credit?*

After getting a few responses, summarize by stating:

- *Credit cards and lines of credit*

- A secured loan means there is another asset pledged against the loan. If you do not pay the loan as outlined in the terms, the lender can collect the pledged asset. This “pledged asset” is called **collateral**.

### ? *What are examples of secured loans?*

After getting a few responses, summarize by stating:

- *Car loans, home loans, payday loans, car title loans, pawn loans*
- *You may want to add that payday loans, car title loans and pawn loans are not loans available at banks or credit unions. They are available from alternative loan providers. You may also want to explain that they will often lend far below the value of the security or collateral, and they often charge very high fees.*

- Unsecured means there is no asset.

### ? *What are examples of unsecured loans?*

After getting a few responses, summarize by stating:

- *Credit card loans, student loans*

### **Mini Skit**

Use the following instructions and talking points to facilitate the mini-skit.

- Ask for two volunteers.
- Give one volunteer card A. This person is the lender.
- Give the other volunteer card B. This person is the borrower.
- Give the lender \$1000 in \$100 bill increments.
- Give the borrower two or three tens.
- Have the participants act out the skit.
- Ask people the following. Give them time to answer. The correct answers are listed.

### ? *Why was the loan balance \$900 not \$890?*

- *Because the \$10 went to interest and possible fees.*

Page 5

**Write participant responses to each question you ask on flip chart paper.**

Page 5

Page 6

Page 6

**Distribute scripts for skit to volunteers only.**

**Fake money in \$10 and \$100 increments.**

## Section #2: Credit: Borrowing Money

### ? **What is interest?**

- *The cost for borrowing the money. It's what the bank earns for lending you the money.*

### ? **Why did the person have to pay fees or interest?**

- *Paying interest and fees is part of the terms of the loan.*
- *It is how the lender makes money. In essence they are renting the money for your use; interest and fees are the rent*

### ? **Who was the lender?**

- *Volunteer A*
- *Explain that lenders are also called creditors.*

### ? **Who was the borrower?**

- *Volunteer B*
- *Explain that borrowers are sometimes called debtors.*

### ? **What is the amount the person borrowed called?**

- *Principal*

### ? **How much principal did this person borrower?**

- *\$1,000*

### ➤ **Explain four more terms:**

- **APR:** It includes both the interest rate and any fees that everyone getting this loan would have to pay. APR does not include late fees, over the limit fees or other fees applied for not following the terms of the loan. Because fees and interest rates can vary from lender to lender (one may charge higher interest but lower fees, while another may charge lower interest, but higher fees) APR allows you to compare credit more accurately—you can compare apples to apples.
- **Terms:** The things you agree to follow when taking out a loan. These include interest rate, kind of interest rate, fees, length of the loan, where payments are due and more.
- **Fixes vs. variable:** Fixed interest rates mean the interest rate does not change. If a credit card or loan has a variable interest rate, the interest rate will change as market interest rates change. Market interest rates are based on an index. Commonly, variable rates are based on the prime rate. Currently the prime rate is 3.25%.

For example, a credit card with a variable rate will often be expressed as: “we add 11% to prime rate for purchases and balance transfers.” This would mean that today, the interest rate is 14.25%.

Variable rate credit cards and loans often start with an interest rate below those with fixed rates. This makes them attractive in the short-term for most people. There is a risk, however, that the rates could increase. This can make the payment difficult.

Because the rates vary, the payments change. This makes budgeting for a

### How Credit Works (Visual Aid 2.4)

Page 6

### Key Terms 1 (Visual Aid 2.5)

Page 7

### Key Terms 2 (Visual Aid 2.6)

## Section #2: Credit: Borrowing Money

variable rate loan or credit card payment more difficult.

- **Amortized:** Amortized is an accounting term that means the interest has been calculated over the life of the loan so you pay the same amount every month. With each payment, some of it goes to cover the interest payment while some of it goes to cover the principal. Student loans, car loans, small business loans and home loans (also called mortgages) are most commonly amortized. This means they are installment loans.

### **TRANSITION**

*Now that you know the key terms associated with credit, you are going to learn a little bit more about how credit works by comparing two examples.*

### **Exercise in Pairs (OPTIONAL)**

Use the following talking points to provide instruction for the activity.

- Instruct participants that they will be using **KEY ACTIVITY—Amortized versus Revolving Credit** for this exercise.
- Explain that they will be comparing an installment loan and a revolving loan with the same balance and terms:
  - \$1,000 borrowed at 10% over 12 months. The revolving credit requires a 5% payment on the balance owed.
- Ask participants to look at the installment loan amortization schedule as well as the spreadsheet for a revolving loan payment and answer the questions that follow.
- Ask participants to share their answers. Compare their responses with the correct answers:

***How much total interest is paid for the installment loan?***

*\$54.99*

***How much interest is paid for the revolving credit?***

*\$45.07 so far.*

***How much principal is owed on the installment loan after 12 months?***

*\$0*

***How much principal is owed for the revolving credit 12 months?***

*There is still a balance of 600.07 left.*

***Which kind of loan seems like it would easier to manage in your budget? Why?***

*The installment loans. The payments are predictable and consistent and have an end date.*

***If the person with revolving credit continues to make payments at this level, how much interest do you think the person will pay?***

*\$144.78*

***How long do you think it will take to pay off the loan in years?***

*5 years*

### **TRANSITION**

*Now that you know how credit works, you are going to look at the trouble with some kinds of credit.*

Pages 8 -10

Page 9

**Answers to KEY ACTIVITY— Amortized versus Revolving Credit (Visual Aid 2.7)**

<b>Section #3: The Trouble with Some Credit (OPTIONAL)</b>	
<b>Estimate of Time:</b> 15 minutes	<b>Pages in Participant Workbook:</b> Module 2:11-13
<b>Materials Required:</b> <input type="checkbox"/> None	
<b>Facilitator Instructions</b>	<b>Materials, Visual Aids &amp; Notes</b>
<p><b>Case Study</b> Use the following talking points to provide instruction for the activity.</p> <ul style="list-style-type: none"> <li>➤ The young people will use <b>KEY ACTIVITY—The Trouble with Credit Case Studies</b>.</li> <li>➤ Divide the group into 3 groups. If you have more than 15 young people, consider doing two group ones, two group twos, etc.</li> <li>➤ Assign group 1, Jamal Visits a Pay Day Lender</li> <li>➤ Assign group 2, Susan Makes Minimum Payments on Her Credit Card Balance</li> <li>➤ Assign group 3, Xander Gets Upside-down in His Car Loan</li> <li>➤ Instruct each group to read the case study, answer the questions and be prepared to share a quick summary of their case study and answer with the rest of the group.</li> <li>➤ Instruct them also to discuss and answer the following: <b>What could the individual have done differently?</b></li> <li>➤ Have each group present.</li> <li>➤ Compare their responses with the correct answers and share any corrections:</li> </ul> <p><b>Jamal Visits a Pay Day Lender</b>  <i>How much did he pay to borrow \$500 for 6 months?</i>            \$300 (\$25 x 12 payments)  <i>Does this loan seem like a good deal?</i>            No. He pays more than 50% of the principal to borrow \$500 for 6 months.</p> <p><b>Note to Facilitator:</b> Here is the formula for calculating the APR:  <i>(Fee/principal x days in year)/term of loan X 100</i>  <i>(25/500 x 365)/14 X 100 = 130.36% APR</i></p> <p><b>Susan Makes Minimum Payments on Her Credit Card Balance</b>  <i>After making her payments for 12 months, how much did she still owe?</i>            \$1,746.74  <i>How much principal did she pay off?</i>            \$53.26  <i>How much interest did she pay?</i>            \$372.85  <i>Does this loan seem like a good deal?</i></p>	<p>Page 11 Page 12 Page 13</p> <p>You may want to work the APR formula out with your participants on a flip chart. If this is something that interests them, give them additional examples to work out. Once they know it, they will always be</p>

### Section #3: The Trouble with Some Credit (OPTIONAL)

No

- Add the following after this group's presentation:
  - ❑ *Credit cards are really convenient. They let you buy things without having cash on hand. They also keep you from having to carry cash. And if they are stolen there are protections for you.*
  - ❑ *If your credit card is stolen and you report it, the most you could ever be liable for is \$50. In other words, if the person who steals your credit card charges \$1,000 on your card before you report it, the most you will ever have to pay is \$50.*
  - ❑ *But credit cards get people in trouble. People charge things on credit cards believing they will be able to pay them off at the end of the month. But then at the end of the month other priorities win out over paying off the credit card in full. So a minimum payment is sent in instead.*
  - ❑ *While paying the minimum payment on time keeps you in good standing, this is exactly what credit card companies want you to do. This is where they make a lot of their money.*
  - ❑ *A better approach, if you are carrying a credit card balance, is to pick a fixed amount above your minimum payment and pay that each and every month. You will:
 
    - *Pay off your credit card balance faster*
    - *Pay a lot less interest**
  - ❑ *If Susan continues to make the minimum payment, it will take her over 100 years to pay it off and she will have paid over \$12,000 in interest.*
  - ❑ *If she had paid a fixed amount of \$72 per month, it would have taken her 2 years and 9 months to pay off the loan. She would have paid only \$588 in interest.*

#### **Xander Gets Upside-down in His Car Loan**

***Does this loan seem like a good deal?***

- *No*
- Add the following after this group's presentation.
  - ❑ *Getting upside-down is not uncommon when people borrow the full value of an asset or nearly the full value.*
  - ❑ *This can also happen when the value of the asset drops faster than the loan balance.*
  - ❑ *The problem is that when you try to sell the asset, you end up with a net loss—no asset and still owing money.*
  - ❑ *When using credit to leverage an asset, try to avoid borrowing the full amount of the asset. This can help prevent becoming upside-down.*

#### **TRANSITION**

***Understanding how people get into trouble with some kinds of credit is a key to your financial future. Now you are going to look at how credit decisions are made, which is the focus of the rest of this module.***

**able to calculate the APR of any kind of credit allowing them to evaluate any kind of credit.**

**Although there are no visual aids for this information, consider writing important points on flip chart paper.**

<b>Section 4: Credit versus Debt</b>	
<b>Estimate of Time:</b> 5 minutes	<b>Pages in Participant Workbook:</b> Module 2:13
<b>Materials Required:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Blank flip charts for recording participant responses</li> <li><input type="checkbox"/> Markers and tape</li> <li><input type="checkbox"/> Prepared visual aid: Credit vs. Debt (Visual Aid 2.8)</li> <li><input type="checkbox"/> Prepared visual aid: How Credit May Help You (Visual Aid 2.9)</li> <li><input type="checkbox"/> Prepared visual aid: When You Owe Money . . . (Visual Aid 2.10)</li> </ul>	
<b>Facilitator Instructions</b>	<b>Materials, Visual Aids &amp; Notes</b>
<p><b><u>Facilitated Discussion</u></b> Use the following talking points and questions to facilitate a discussion.</p> <p style="text-align: center;"><b>? What is the difference between credit and debt?</b></p> <p>After getting a few responses, summarize by stating:</p> <ul style="list-style-type: none"> <li>○ <i>Credit is the ability to borrow money. Debt is the result of using credit. It's when you owe someone or a business money. Debt is a liability.</i></li> </ul> <p style="text-align: center;"><b>? What kind of asset is credit?</b></p> <p>After getting a few responses, summarize by stating:</p> <ul style="list-style-type: none"> <li>○ <i>Credit is a productive asset because it can help you get and keep other assets.</i></li> <li>○ <i>Having credit may help you:</i> <ul style="list-style-type: none"> <li>○ <b>Avoid financial crises</b>—low priced credit may help you deal with emergencies,</li> <li>○ <b>Get a job</b>—education or training may help you get a good job and student loans may help you get that education,</li> <li>○ <b>Start a business</b>—a loan for a key piece of equipment, inventory or promotional materials may lead to a successful business,</li> <li>○ <b>Own a home</b>—most people use a mortgage to finance their own home,</li> <li>○ <b>Provide for your own family, and</b></li> <li>○ <b>Achieve your goals and realize your vision.</b></li> </ul> </li> <li>○ <i>But credit must be used carefully and wisely. Once you use credit, you owe money.</i></li> <li>○ <i>When you owe money, you obligate your future income. Obligations made today with income you have not yet earned, may decrease options for you in the future. The bottom line—use of credit with caution.</i></li> </ul>	<p>Write participants responses on flip chart paper.</p> <p>Page 13</p> <p><b>Credit vs. Debt (Visual Aid 2.8)</b></p> <p>Page 13</p> <p><b>How Credit May Help You (Visual Aid 2.9)</b></p>

**Section 4: Credit versus Debt**

- *You will hear financial gurus say: do not use credit! Stay out of debt! But sometimes this is not practical. The best times to use credit are when investing in assets that are likely to increase in value—your training or education, a home or even a well-planned business.*
- *Generally, avoid the use of credit for short-term purchases **especially if they will create a long-term debt obligation.** This commonly happens when pay day loans, rent-to-own arrangements or credit cards are used to buy things. For furniture, clothing, appliances and dinner with friends, use your income or create a small stash of savings to pay for these items.*

**When You Owe Money (Visual Aid 2.10)**



<b>Section #5: How Credit Decisions are Made</b>	
<b>Estimate of Time:</b> 15 minutes	<b>Pages in Participant Workbook:</b> Module 2:14-16
<b>Materials Required:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Blank flip charts for recording participant responses</li> <li><input type="checkbox"/> 4 blank flip charts hung next to each other for role play</li> <li><input type="checkbox"/> Markers and tape</li> <li><input type="checkbox"/> Large self-adhesive notes (10 for each small group) or brightly colored paper</li> </ul>	
<b>Facilitator Instructions</b>	<b>Materials, Visual Aids &amp; Notes</b>
<p><b>Brainstorm</b> Use the following talking points and questions to facilitate a brainstorm session with the young people.</p> <p>? <i>What people or businesses that you know about can be creditors or lenders?</i></p> <p>After getting a few responses, add the following if not mentioned:</p> <ul style="list-style-type: none"> <li>o <i>friends,</i></li> <li>o <i>family members,</i></li> <li>o <i>clothing stores,</i></li> <li>o <i>gas stations,</i></li> <li>o <i>automobile dealers,</i></li> <li>o <i>banks,</i></li> <li>o <i>credit unions,</i></li> <li>o <i>credit card companies,</i></li> <li>o <i>payday lenders,</i></li> <li>o <i>rental stores (rent-to-own),</i></li> <li>o <i>and more.</i></li> </ul> <p>? <i>Why do they lend money or extend credit?</i></p> <p>After getting a few responses, summarize by stating:</p> <ul style="list-style-type: none"> <li>o <i>It is how they make money or it helps them make money (an auto dealer offering financing; without it they would sell fewer cars, but they also profit from the terms of the financing).</i></li> </ul> <p><b>Role Play (Optional)</b> Use the following talking points and questions to facilitate the role play.</p> <p><b>Note to Facilitator:</b> <i>You can present the 4 Cs if time is a concern. This is less engaging, but saves time.</i></p> <p><b>Note to Facilitator:</b> <i>You can get props for the role play. You</i></p>	<p>Page 14</p> <p>Write participant responses on flip chart paper.</p> <p>Write participant responses on flip chart paper.</p> <p>Page 15</p>

## Section #5: How Credit Decisions are Made

can also give each team a large cardboard table tent onto which they can write their bank's name.

- Tell the young people they are going to do a role play and that each table is the credit committee at a bank.
- Their role is to get information from you (the facilitator role playing the borrower) to make a decision as to whether to lend you (the facilitator role playing the borrower) money.
- They should write each question they come up with on a large, *self-adhesive note* (5" X 8") or individual pieces of paper with markers.

**Note to Facilitator:** *Instead of having the young people brainstorm ideas in their books or on a flip chart, use individual self-adhesive notes or paper. This saves time in that you are not rewriting their contributions AND you can organize them into the "C" categories: Capacity, Capital, Collateral and Character.*

- Instruct them to "think like a banker" and give them 3 - 4 minutes to generate their questions.
  - Once they are done, collect questions from groups using round robin technique not to repeating ideas already shared.
  - Organize them into one of the four categories without revealing the categories. For example, if a group said: "Do you have the money to pay back the loan?" this question is about Capacity and would go on the first blank flip chart. If a group said: "Do you normally pay your bills on time?" this is about character and would go on the fourth blank flip chart.
  - Put the name of each category above the appropriate grouping of questions and define the 4 C's as you do this.
    - Capacity**--Do you have the financial ability to pay back the loan?
    - Capital**--Do you have other assets that can be used or sold to cover the loan?
    - Collateral**--Do you have an asset that can be pledged against the loan?
    - Character**--Are you likely to pay back the loan as agreed?
- Explain that all of the information they get about someone wanting to borrow money comes from one of two places:
    - The application for credit
    - The credit report

**Note to Facilitator:** *You can go back through some or all of the questions they generated and determine whether they are answered on the application or the credit report. You can label each question appropriately.*

### TRANSITION

*Now that you know the 4 Cs of credit decisions, you are going to learn a little more about two of these: Capacity and Character*

Page 16

**Hang 4 blank flip charts.**

**You will have one flip chart for each C. You will not write the category on until after participants have shared their questions. They come up with the ideas, as they share them you categorize them and then once you are done collecting and organizing participant responses, you write the category at the top of the respective flip chart.**

**Keep these 4 flip charts posted for the remainder of the training. You can refer back to them as you cover other aspects of credit where appropriate.**

<b>Section #6: Capacity</b>	
<b>Estimate of Time:</b> <b>20 minutes with optional activity</b> <b>10 minutes without optional activity</b>	<b>Pages in Participant Workbook:</b> <b>Module 2:16-20</b>
<b>Materials Required:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Blank flip charts for recording participant responses</li> <li><input type="checkbox"/> Markers and tape</li> <li><input type="checkbox"/> Prepared visual aid: Debt to Income Ratio (Visual Aid 2.11)</li> <li><input type="checkbox"/> Prepared visual aid: Gross Income (Visual Aid 2.12)</li> <li><input type="checkbox"/> Prepared visual aid: Debt to Income Limits (Visual Aid 2.13)</li> <li><input type="checkbox"/> Prepared visual aid: How to Use the Debt to Income Ratio (Visual Aid 2.14)</li> </ul>	
<b>Facilitator Instructions</b>	<b>Materials, Visual Aids &amp; Notes</b>
<p><b>Large Group Exercise</b> Use the following talking points and questions to facilitate the large group exercise.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Creditors use something called the debt-to-income ratio to make sure you aren't taking on too much debt.</li> <li><input type="checkbox"/> Here is how to calculate it: <b>Monthly debt payments</b> <u>divided by</u> your <b>monthly gross income</b>.</li> </ul> <p><b>? What is gross income?</b></p> <p><b>After getting a few responses, summarize by stating:</b></p> <ul style="list-style-type: none"> <li>○ <i>Gross pay is what you earn before any deductions are taken. Deductions are taken for federal income tax, Social Security, Medicare, state tax, local tax and insurance. There are other deductions that may be taken out of your paycheck. These are covered in section 3.</i></li> <li>○ <i>Net pay is what you have left after all of the deductions are taken out. It's what you take home.</i></li> </ul> <p>➤ Review <b>KEY ACTIVITY—Understanding the Debt to-Income Ratio</b>.</p> <p>➤ Summarize Leon's story while you do the math on a flip chart or white board.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Leon is 24 years old. His monthly debt payments include an auto loan and credit card payments. His monthly debt payments total \$485. His monthly gross income is \$1,870. His debt to income ratio is: \$485 (monthly debt payments) divided by \$1,870 (monthly gross income) = .2593 or 26% (debt to income ratio)</li> <li><input type="checkbox"/> This means that 26% of his gross income goes to cover his debt payments right now. Another way of thinking about this is that for every dollar he earns, \$0.26 goes to cover debt. That leaves \$0.74 of every dollar to cover his other expenses.</li> </ul>	<p><b>Debt to Income Ratio (Visual Aid 2.11)</b></p> <p><b>Page 16</b></p> <p><b>Page 16</b> <b>Gross Income (Visual Aid 2.12)</b></p> <p><b>Page 17</b></p> <p><b>Work out calculations on flip chart or white board. You can ask participants to read the story so you can do the math.</b></p>

## Section #6: Capacity

? **What other expenses does he have to cover with that \$0.74?**

**After getting a few responses, summarize by stating:**

*This means he has \$0.74 of each dollar for everything else including:*

- Taxes
- Rent
- Renter's insurance
- Utilities
- Cell phone, service and data plan
- Computer and internet service
- Clothes
- Food
- Transportation
- Entertainment
- School related expenses
- And so on

➤ Review debt-to income limits using the visual aid.

- The debt-to-income ratio is a great tool not only for lenders, but for you too!
- You can use your debt-to-income ratio to:
  - Figure out whether to take on new debt**—should you buy a new car or stick with this old car for a little longer?
  - Make a goal for your debt level**—can you get your debt-to-income ratio down to 25% by the end of the year?
  - Keep track of how you are doing paying down debt**—how much has your debt-to-income ratio decreased in the past 6 months?
- Debt-to-income ratio is a measure of your financial health. Just like your blood pressure reading tells you how much pressure there is on your heart, your debt-to-income ratio can tell you how much pressure your debt has on your income.

### **TRANSITION**

*Remember these are limits or maximums NOT targets. You want to make sure you are BELOW these limits. And the further below them, the more financial stability you will have.*

### **Exercise in Pairs (Optional)**

Use the following talking points and questions to facilitate the exercise in pairs.

- With a partner, calculate the debt-to-income ratio for Maria and Dakota using **KEY ACTIVITY—Using the Debt-to-Income Ratio**.
- Answer the questions that follow each mini-case study.
- Be prepared to share your answers.
- Compare their responses with the correct answers and share any corrections:

Record participant responses on flip chart paper.

**Page 18**

**Debt to Income Limits (Visual Aid 2.13)**

**How to Use the Debt to Income Ratio (Visual Aid 2.14)**

**Pages 18-19**

## Section #6: Capacity

**Maria**

**What is her debt-to-income ratio?**

$$(285+140+225)/2100 = .31 \text{ or } 31\%$$

**Based on only her debt-to-income ratio, should she take on an auto loan?**

*No*

**What else would you want her to consider before making this decision?**

*Find a less expensive car; see about lowering student loan payment through Income Based Repayment if car is a necessity.*

**Dakota**

**What is his debt-to-income ratio?**

$$(165 + 295 + 820)/2950 = .43 \text{ or } 43\%$$

**Based on his debt-to-income ratio, should he take on mortgage (home loan)?**

*Maybe. His career has lots of growth potential. He also has a lot in emergency savings.*

**What else would you want him to consider before making this decision?**

*Find out how much longer on car payment. If it's almost paid off, the mortgage should not stretch him*

**Work out calculations on flip chart or white board if participants are unclear about how to get the answer.**

### Summarize using the following:

- You have learned about the 4 Cs of credit and now you have had an in depth look at Capacity.
- Remember, capacity looks at whether you can you handle debt from your current resources.
- This section gives you the information and skills to complete **Keys to Your Financial Future Step 2.1: Calculate Your Debt-to-Income Ratio**.
- If you do not have debt or income, you can skip this section of your asset building plan for now.
- Remember, looking at and keeping track of your debt-to-income ratio is like your personal financial blood pressure. Make sure you are keeping it below those thresholds so you are not putting too much pressure on each paycheck to pay off debt.
- This is a key to your financial future.

**Page 20**



## Section #7: Character Part 1: Credit Reports

<p><i>insurance coverage and the rates you will pay for coverage.</i></p> <ul style="list-style-type: none"> <li>○ <i>A <b>utility company</b> may use them to figure out how much deposit you must pay before they will turn on your electric or gas.</i></li> <li>○ <i>A <b>cell phone provider</b> may use them to determine what plans you may be eligible for and the rates you will pay.</i></li> <li>○ <i>Finally, credit scores are completely based on information in your credit reports. The more positive the information in your credit reports, the higher your credit scores will be. You will learn more about credit scores later in this section.</i></li> </ul> <ul style="list-style-type: none"> <li>□ There are three companies that collect this information and sell it to others. They are called Credit Reporting Agencies (CRAs) or Credit Bureaus.</li> <li>□ They are: <b>Experian, Equifax and TransUnion.</b></li> <li>□ <b>If you are over 18</b>, you can order a credit report from any of these companies any time. You can order them from their websites. You can call them. You can write to them. You should review your credit reports from all three credit reporting agencies because they do not all have the same information.</li> <li>□ You can also get one free report each year from all three credit reporting agencies through <a href="http://www.annualcreditreport.com">www.annualcreditreport.com</a>. This is because of a law called the FACT Act.</li> <li>□ To get yours, you will need to give them your: <ul style="list-style-type: none"> <li>□ Name</li> <li>□ Address (and your previous two or three most recent addresses)</li> <li>□ Birth date</li> <li>□ Social Security Number</li> </ul> </li> <li>□ You will also be asked a series of security questions. Examples of the security questions include: <ul style="list-style-type: none"> <li>□ The name of a street you lived on before your current address.</li> <li>□ The monthly payment for a loan you have.</li> <li>□ The name of a creditor or lender you have a loan with.</li> </ul> </li> <li>□ The security questions are generally based on information in your credit.</li> <li>□ If you have been the victim of fraud or identity theft, the security questions could be a problem—you may be asked about a loan or credit you know nothing about barring access to your report.</li> <li>□ After you receive one free report from each credit reporting agency, there is usually a fee for any additional reports in a year unless: <ul style="list-style-type: none"> <li>□ You have been denied credit, a job or an apartment based on your credit—then you get a free report from the credit bureau that gave the information that led to your denial. <b>You must request the report within 60 days of the denial.</b></li> <li>□ You are receiving public assistance—then you are allowed an additional free report.</li> <li>□ You are unemployed and planning to look for a job within the next 60 days.</li> <li>□ Your report is inaccurate because of fraud including identity theft.</li> </ul> </li> <li>□ If you are under 18, there is no way to access your report through <a href="http://www.annualcreditreport.com">www.annualcreditreport.com</a>. This is because the credit reporting</li> </ul>	<p><b>Page 25</b></p> <p><b>The Credit Reporting Agencies (VA 2.16)</b></p> <p><b>Pages 25-29</b></p> <p><b>Pages 26-29</b></p>
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## Section #7: Character Part 1: Credit Reports

agencies “do not knowingly create a credit file for anyone under 18.”

There are some exceptions (where you could have a credit report):

- If you are an emancipated minor, in some states you may be able to enter credit contracts before you are 17
- If you are an authorized user on someone’s credit card
- If you have student loans
- If your identity has been stolen and used by someone else to get credit—loans and credit cards—or other services—cell phone plans, medical services, utilities or cable service
- If you suspect fraud or identity theft or want to ensure you do not have anything on your credit report before you turn 18, you will need the help of a parent, guardian or case worker.
- Use the instructions in your workbook to contact each of the credit reporting agencies to get your report.
- You will need to include:
  - Cover letter including full name, birth date and addresses for the previous 5 years
  - Proof of current address
  - Copy of the birth certificate
  - Copy of the Social Security Card
  - Copy of parent or guardian identification card
  - If legal or court appointed guardian, a copy of documentation showing this relationship
- You can also call them or go through their websites.

### Summarize using the following:

- One of the most important things you will do to maintain your financial health is order and review your credit report from each of the credit reporting agencies—Transunion, Experian and Equifax once per year.
- You must order all three because they may have different information on them.
- Some people recommend ordering one of them every 4 months. This ensures you are keeping a regular eye on what is going on with your credit. You only need to start this habit when you turn 18 OR if you have been a victim of identity theft or fraud.
- To get you started on this habit, complete *Keys to Your Financial Future Step 2.2: Order Your Credit Report*.
- Once you do get your credit report, complete *Keys to Your Financial Future Step 2.3: Credit Report Review Checklist*.
- Once you are done completing the checklist, clip it to the credit reports you have reviewed and put them in a safe and secure place. If you do not have a safe or secure place, talk to staff here at the Opportunity Passport™ Site or your caseworker.

### Reading a Credit Report

Use the following talking points and questions to facilitate the exercise on reading a credit report.

**Note to Facilitator:** The credit report contained in the

**Pages 26-29**

**Can You Have a Credit Report if You are Under 18? (VA 2.17)**

**Page 35-36**

**Page 37**

**Page 30**



## Section #7: Character Part 1: Credit Reports

*participant workbook is in the tools section for this module. The answers to the questions the young people are to answer are included below.*

- Explain each of the main sections of the report.
- Have the young people circle and label each section of the report as you review each section:

- ❑ **Personal Information.** This includes your name and any variations of your name you may have used, your social security number, your current address and phone number, your previous addresses and phone numbers, and sometimes employment information.
- ❑ **Public Records.** This includes bankruptcies, liens (right to property until a debt is paid; liens are often placed because of unpaid taxes), garnishments (court order allowing money, assets or wages of someone to be seized to satisfy a debt) and other judgments resulting from court actions.
- ❑ **Account Information.** This section includes the names of all of the accounts opened under your name and information, account numbers, creditor contact information, balances, payment status, account types, terms, dates opened and payment patterns. This is where most information on a credit report is. **This is also the section where you are likely to see whether someone else has stolen your identity.**
- ❑ **Accounts in Collection.** Some credit reports separate accounts that are in collections. If an account has gone to collections, this means the creditor has given up trying to get payment from you. They have given the account to a special department that handles delinquent payments. Or they have sold the debt to a collection agency or lawyer to collect. Special laws apply to debts that have been sold to collection agencies or lawyers.
- ❑ **Inquiries.** Companies look at your credit reports when you apply for credit. They also review your accounts or use the information to offer you a special promotion.

- ❑ Have the young people answer the questions in **KEY ACTIVITY—Reading a Credit Report.** Following are the correct answers to share once participants have had time to answer in pairs or small groups.

1. **Whose credit report is this?**  
*Maria Williamson (Note: She is 21 years old as of this past January)*
2. **Where does the person live?**  
*3456 1<sup>st</sup> Street  
Des Moines, IA 63072*
3. **How many places has the person lived?**  
*3 including her current address. This may not have all of her addresses on file.*
4. **Has the person had a bankruptcy?**

**Pages 31 and 32  
(example credit report)**

**Page 31**

**Page 31**

**Page 32**

**Page 32**

**Page 32**

**Pages 33-34**

## Section #7: Character Part 1: Credit Reports

<p>5. <i>No. This would be in the public records section of the credit report.</i> <b>Has the person had an account in collections? If yes, what is the account?</b> <i>Yes. With Results Collection for an unpaid department store charge. \$489 was placed with collections. The balance is \$350- this is what is still owed.</i></p> <p>6. <b>How many credit accounts does this person have open?</b> <i>Two accounts</i> <i>Easy Auto Finance (an automobile loans; this is also an installment loan—see the “I” in account rating number).</i> <i>National Credit Card (a credit card; this is a revolving loan—see the see the “R” in account rating number).</i></p> <p>7. <b>What is the balance on each account?</b> <i>Easy Auto Finance: \$7,097.75</i> <i>National Credit Card: \$1,475</i></p> <p>8. <b>How many are late? How late are they?</b> <i>One is late, Easy Auto Finance.</i> <i>See payment patterns section: 3211111</i> <i>1 = paid as agreed</i> <i>2 = 30 to 59 days past due date</i> <i>3 = 60 to 89 days past due date</i> <i>4 = 90 to 119 days past due date</i> <i>5 = 120 or more days past due date</i> <i>9 = charged off to bad debt</i></p> <p>9. <b>Overall, do you think this person’s credit looks good or does it look like it needs work?</b> <i>Needs work. Person must immediately get current with auto payment or run the risk of losing the vehicle (it may become repossessed)</i></p> <p>10. <b>Would you extend more credit to them? Why or why not?</b></p>	<p>Page 33</p> <p>Page 33</p> <p>Page 33</p> <p>Page 34</p> <p>Page 34</p>
<p><b>Review an Example</b> Use the following talking points and questions to share the example of taking care of mistakes on your credit report.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Getting mistakes fixed on your credit reports is your responsibility once you are 18 or over. While in care, you can get the support of your caseworker. At any age, you can get support from this Opportunity Passport™ site.</li> <li><input type="checkbox"/> If you are under 18 and in care, this responsibility will be the child welfare system’s starting in January 2013. However, since it is about your future, you may want to keep track of what is going on with your credit.</li> <li><input type="checkbox"/> To take care of mistakes, you must contact the credit reporting agency.</li> </ul> <p>➤ Read through Molly’s example.</p> <p>➤ Ask participants the following about the example dispute resolution letter:</p> <p>? <b>What information does Molly include in her letter?</b></p> <p>After getting a few responses, summarize by stating:</p>	<p>Page 38</p> <p>Write participant responses on flip chart paper.</p>

## Section #7: Character Part 1: Credit Reports

<ul style="list-style-type: none"> <li>○ She includes a clear description of exactly what she is disputing:</li> <li>○ “The information indicating I made late payments to Super Cell Phone Provider and owe them a balance is incorrect. In April, May, June and July of 2011, these payments are marked late. These payments were made on time. I also have no outstanding balance.”</li> </ul>	<p><b>Pages 38-39</b></p>
<p><b>? What information does Molly include with her letter?</b></p> <p><b>After getting a few responses, summarize by stating:</b></p> <ul style="list-style-type: none"> <li>○ A copy of her credit report with disputed items highlighted.</li> <li>○ Information from her bank indicating when the payments were made using online bill payment.</li> </ul>	
<p><b>? How long does the credit reporting agency have to investigate and respond?</b></p> <p><b>After getting a few responses, summarize by stating:</b></p> <ul style="list-style-type: none"> <li>○ 30 days</li> </ul>	<p><b>Page 39</b></p>
<p><b>Summarize using the following:</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Use the example dispute resolution form or the form available through the credit reporting agency websites to file a dispute IF YOU HAVE A MISTAKE ON ONE OR MORE OF REPORTS.</li> <li><input type="checkbox"/> Use <i>Keys to Your Financial Future Step 2.4: Disputing Errors on Your Credit Report</i> to file your dispute.</li> <li><input type="checkbox"/> You will need to keep these records—the letters you send, the original supporting documents for your dispute and responses from the credit reporting agencies and creditors in a safe and secure place. If you do not have a safe or secure place, talk to staff here at the Opportunity Passport™ Site or your caseworker.</li> <li><input type="checkbox"/> Even if you use the online form (not recommended), be sure to print it out so you have evidence and records of when you filed the dispute.</li> <li><input type="checkbox"/> Send dispute via certified mail with signature confirmation.</li> </ul> <p><b>Note to Facilitator:</b> <i>If you have young people concerned about fraud, you can go into fraud alerts and credit freezes using the following information from the FTC below. Visit the <a href="http://www.FTC.gov">www. FTC.gov</a> website or the Privacy Rights Clearinghouse to learn more about fraud alerts and credit freezes.</i></p>	<p><b>Page 40</b></p>

A **fraud alert** is a tool for people who’ve had their identity stolen – or who suspect it may have been stolen. With a fraud alert in place, businesses may still check your credit report. Depending on whether you place an initial 90-day fraud alert or an extended fraud alert (which lasts up to 7 years), potential creditors must either contact you or use what the law refers to as “reasonable policies and procedures” to verify your identity before issuing credit in your name. However, the steps potential creditors take to verify your identity may not always alert them that the applicant is not you. A **credit freeze**, on the other hand, will prevent potential creditors and other third parties from accessing your credit report at all, unless you lift the freeze or already have a relationship with the company. Some consumers use credit freezes because they feel they give more protection. Credit freezes and fraud alerts are mainly effective against new credit accounts being

opened in your name, but will likely not stop thieves from using your existing accounts, or opening new accounts such as new telephone or wireless accounts, where credit is often not checked..

<b>Section #8: Repairing, Building and Maintaining Good Credit</b>	
<b>Estimate of Time:</b> 20 minutes	<b>Pages in Participant Workbook:</b> Module 2:41-46, 53
<b>Materials Required:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Blank flip charts for recording participant responses</li> <li><input type="checkbox"/> Markers and tape</li> <li><input type="checkbox"/> Other supplies for teach back</li> <li><input type="checkbox"/> Prepared visual aid: Instruction for Teach Back (Visual Aid 2.18)</li> <li><input type="checkbox"/> Prepared visual aid: Credit Building and the Opportunity Passport™ (Visual Aid 2.19)</li> </ul>	
<b>Facilitator Instructions</b>	<b>Materials, Visual Aids &amp; Notes</b>
<p><b>Teach Back by Creating Commercials, Billboards, Raps or Jingles</b></p> <p>Use the following talking points and instructions to facilitate the teach back.</p> <ul style="list-style-type: none"> <li>➤ Put the participants into three groups.</li> <li>➤ Explain to them that they will have 10 minutes to prepare a commercial highlighting the key points of their group’s assignment—it can be a poster/billboard, a rap or jingle or some other way to creatively and memorably convey the information quickly to the rest of the group.</li> <li>➤ Assign group 1, Repairing Credit (pages 45 – 48); group 2, Building Credit (pages 49 - 50; group 3, Maintaining Good Credit (page 51).</li> <li>➤ Instruct participants to use the materials in their workbooks.</li> <li>➤ After 10 minutes, have each group present.</li> <li>➤ Consider having some kind of reward for the groups for their effort and creativity.</li> </ul> <p><b>Note to Facilitator:</b> Rewards or prizes for this activity or others can include: Least expensive <input type="checkbox"/> PayDay candy bars, 100 Grand Bars, bag of chocolate coins</p> <p>More expensive <input type="checkbox"/> prepaid debit cards, financial books, gift cards for iTunes or apps, restaurant or movie gift cards, budgeting software, Amazon.com gift card.</p> <p><b>Summarize using the following:</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Use the information from the commercials and the information in your</li> </ul>	<p><b>Instruction for Teach Back (Visual Aid 2.18)</b></p>

## Section #8: Repairing, Building and Maintaining Good Credit

workbook to complete *Keys to Your Financial Future Step 2.5: Credit Repair or Building Plan*.

**Page 46**

- Consider meeting individually with staff if you need to repair your credit history, build your credit history and/or plan to use your Opportunity Passport™ Matched Savings for credit repair or building.

### **Presentation**

Use the following talking points to present information about credit and the Opportunity Passport™.

**Credit Building and the Opportunity Passport™ (Visual Aid 2.19)**

- Because good credit is such an important productive asset, you can use your Opportunity Passport™ Matched Savings to repair or build credit.
- It means you can apply your matched savings to:
  - Repair your credit history and improve your scores by paying for:
    - accounts you may be late on
    - debts in collections
    - accounts you risk becoming late on or
    - dealing with legal or other issues resulting from identity theft
- OR to build your credit history and improve your scores, you can use your matched savings to:
  - secure a credit builder loan to build credit
  - secure a credit card to build credit
- Before deciding to use your Opportunity Passport™ Matched Savings to build credit, be sure you have:
  - Ordered your credit report
  - Reviewed your credit report with Opportunity Passport™ Staff or someone they have referred you to
  - Considered other asset building opportunities you may be giving up if you use your Opportunity Passport™ Matched Savings for credit repair or building.

**Page 53**

### **Summarize using the following:**

- Good credit—having a good credit history and positive credit scores—is a productive asset.
- Good credit can help you get and keep other assets.
- Investments of time and money now to deal with credit issues may make credit accessible, loans more affordable, jobs more available, insurance affordable and renting an apartment possible.
- Having good credit—having a good credit history and positive credit scores—is a key to your financial future.

<b>Section #9: Character Part 2: Credit Scores (OPTIONAL)</b>	
<b>Estimate of Time:</b> 20 minutes	<b>Pages in Participant Workbook:</b> Module 2:47-52
<b>Materials Required:</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Credit scoring card sets printed on 2" X 3 ½" business cards (Avery 8371) for participants in Groups of 3</li> <li><input type="checkbox"/> Prepared visual aid: FICO Score Distribution (Visual Aid 2.20)</li> </ul>	
<b>Facilitator Instructions</b>	<b>Materials, Visual Aids &amp; Notes</b>
<p><b><u>Facilitated Discussion</u></b> Use the following talking points and questions to facilitate a discussion.</p> <p>? <b><i>What is the difference between a credit report and credit score?</i></b></p> <p><b>After a few responses, summarize by stating:</b></p> <ul style="list-style-type: none"> <li>○ <i>A credit report is a document that contains some of your bill paying history as well as information from the courts and collection agencies.</i></li> <li>○ <i>A credit score is a number.</i></li> </ul> <p>? <b><i>What is a credit score?</i></b></p> <p><b>After a few responses, summarize by stating:</b></p> <ul style="list-style-type: none"> <li>○ <i>A credit score is a number generated entirely from information on your credit reports. It is supposed to predict the likelihood that you will pay your bills on time and in full.</i></li> </ul> <p>? <b><i>Why should I care about my credit scores?</i></b></p> <p><b>After a few responses, summarize by stating:</b></p> <ul style="list-style-type: none"> <li>○ <i>Businesses use them to make decisions about you--banks, credit unions and other creditors or lenders, landlords and insurance agencies. They use them because it's quicker to understand a score than it is to read an entire credit report. It saves them time and money.</i></li> </ul> <p>? <b><i>Who makes them?</i></b></p> <p><b>After a few responses, summarize by stating:</b></p> <ul style="list-style-type: none"> <li>○ <i>All three credit reporting agencies make their own credit scores:</i> <ul style="list-style-type: none"> <li>○ <i>Experian has the Experian Credit Score also called the PLUS Score. (This is the score advertised on television with the guy playing the guitar.)</i></li> <li>○ <i>Equifax has the Equifax Credit Score™.</i></li> <li>○ <i>Transunion has the TransRisk Score</i></li> </ul> </li> <li>○ <i>The most commonly used credit scores, come from FICO, Fair Isaac Corporation.</i></li> </ul>	<p>Page 47</p> <p><b>Write participant responses on flip chart paper.</b></p> <p>Page 47</p> <p><b>Write participant responses on flip chart paper.</b></p> <p>Page 47</p> <p><b>Write participant responses on flip chart paper.</b></p> <p>Page 48</p> <p><b>Write participant responses on flip chart paper.</b></p>

### ? *What is a good one?*

After a few responses, summarize by stating:

- FICO scores range from 300 to 850. The higher the better. Most people consider between 700 and 720 and up a good credit score.

### **Exercise in Triads**

Use the following talking points and instructions to facilitate the exercise in triads.

- You are going to calculate a credit score for one person over the course of many months using **KEY ACTIVITY—What Makes Your Score Go Up or Down?**
- You need to appoint one person the reader. This person will read each card. **DO NOT READ WHETHER THE SCORE GOES UP OR DOWN OR BY HOW MUCH UNTIL AFTER YOUR TWO TEAMMATES HAVE HAD A CHANCE TO GUESS.**
- After each card is read, the other two people will guess whether the score goes up or down as a result of the individual.
- One of the guessers should also be a recorder and keep track of each transaction, how much it made the score go up or down, and the ending score after each transaction.
- Following the exercise ask participants to share their final credit score.

**Note to Facilitator:** *While the triads should come up with the same result, they may not due to math errors. This should be overlooked because the purpose of the exercise is about watching.*

### ? *What made your score go up?*

### ? *What made your score go down?*

- Go over the composition of the score and relate their contributions to one of the pieces of this pie.
- Ensure participants understand credit utilization rate. Explain that percentage of credit used on revolving accounts should be 30% or below.

**Note to Facilitator:** *This concept is discussed a little further below.*

- Ensure participants understand the example contained ESTIMATED impacts. (These are loosely based on an example developed by FICO and the Consumer Federation of America.) Explain that it is impossible to predict exactly how much one transaction will affect a score overall because the score is actually calculated using an algorithm. Any one action is calculated based on everything else happening in your report as well as how you compare to others.

### **Stand Up, Sit Down (Voting by standing)**

Use the following talking points and instructions to facilitate the activity.

Give each group of three a set of cards.

Pages 55 and 56

Write participant responses on flip chart paper.

Page 49-50

FICO Score Distribution (Visual Aid 2.20)

Page 52

- Have participants stand up if they think the item read is factored into their credit scores. Read each item relatively quickly.

**Note to Facilitator:** Do not read the answer until people have stood up or remained in their seats.

Item	Yes—Participants Should Be Standing
Age	
Salary	
On time payments	YES
Religion	
How long they have had credit	YES
Different kinds of credit—both installment loans and revolving credit	YES
Receiving public assistance	
Inquiries to open new credit accounts	YES
Employment history	
Participation in credit counseling services	
Percentage of available credit used	YES
Late payments	YES

**Summarize using the following:**

- The information in your scores comes from what is in your credit reports. If you are under 18 and don't have a credit report, then you don't have credit scores.
- The companies that make credit scores are developing new scores that will reach beyond the information in your credit score—they may look at payday loans, health club membership, rent payments and more. What does this mean for you? You may be able to develop a "score" more quickly, but more things will affect your scores.



<b>Section #10: Closing (Optional)</b>	
<b>Estimate of Time:</b> <b>5 to 10 minutes depending on group size</b>	<b>Pages in Participant Workbook:</b> <b>None</b>
<b>Materials Required:</b> <input type="checkbox"/> Brightly colored paper for participants to make airplanes.	
<b>Facilitator Instructions</b>	<b>Materials and Visual Aids</b>
<p><b><u>“Most Surprising Thing” Airplane Toss</u></b> Use the following talking points and questions to facilitate a discussion.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> You have learned about credit,</li> <li><input type="checkbox"/> You can explain the difference between credit and debt and how credit works.</li> <li><input type="checkbox"/> You can use key credit terms like principal, interest and APR and explain how credit decisions are made.</li> <li><input type="checkbox"/> You know where and how to get your credit reports whether you are under 18 or 18 and older,</li> <li><input type="checkbox"/> And you can explain how credit scores work and are calculated.</li> <li><input type="checkbox"/> This is one of the most important financial education topics because positive credit reports and high credit scores are productive assets. They can help you: <ul style="list-style-type: none"> <li><input type="checkbox"/> Get credit</li> <li><input type="checkbox"/> Pay less for credit</li> <li><input type="checkbox"/> Get employment</li> <li><input type="checkbox"/> Access utilities</li> <li><input type="checkbox"/> Qualify for apartments</li> <li><input type="checkbox"/> Select the most cost effective cell phone plan</li> <li><input type="checkbox"/> Qualify for insurance</li> </ul> </li> <li><input type="checkbox"/> Poor credit histories and credit scores or no credit history can close doors.</li> <li><input type="checkbox"/> With the piece of paper, write the one thing that most surprised you from the session.</li> <li><input type="checkbox"/> Make it into an airplane.</li> </ul> <p>➤ Tell young people to fly their planes.</p> <p>➤ Instruct participants to pick up the plane that is closes to them and read what is on the airplane to end the session.</p>	<p>Blank Flip Charts for Recording Participant Contributions</p> <p><b>Brightly colored paper for participants to make airplanes.</b></p>

**Tools for Module 2—Good Credit: Your score in the game of life****Card A □ Your role: Lender**

- Use the following script to act out the skit. Your lines are the “lender” lines. They are bolded.
- Words that are *italicized* are acting instructions. Please feel free to add your own actions and words to the skit.

Borrower: Good afternoon. My name is (INSERT MADE UP NAME) and I would like to borrow some money to start my business.

**Lender: Great! Here at Community Bank we love to support businesses. Do you have a business plan?**

Borrower: I do! Here it is. (Hand file folder or some paper to the lender.)

**Lender: *Flip through business plan. It seems you only want to borrow \$1000 for some basic equipment. Is this correct?***

Borrower: Yes. It’s just what I need to start my office cleaning business.

**Lender: Well, here is your loan. *Give borrower 10 \$100 bills. Count them out as you give the loan. You can borrow this for 12 months at 10%. So next month you will owe \$110 dollars.***

**\*\*\*NEXT MONTH\*\*\***

Borrower: Well, I’m here to pay my loan. \$110 dollars. *Give the lender \$100 and then \$10.*

Borrower: Based on my calculations, I only owe \$890 on my loan.

**Lender: Well, not quite. You owe \$900.**

Borrower: Wait, I don’t understand.

**Lender: Let’s see if there is someone who can explain it to you.**

Facilitator asks group to explain why the balance on the loan is \$900 NOT \$890.

**Card B** Your role: **Borrower**

- Use the following script to act out the skit. Your lines are the “borrower” lines. They are bolded.
- Words that are *italicized* are acting instructions. Please feel free to add your own actions and words to the skit.

**Borrower: Good afternoon. My name is (INSERT MADE UP NAME) and I would like to borrow some money to start my business.**

Lender: Great! Here at Community Bank we love to support businesses. Do you have a business plan?

**Borrower: I do! Here it is. (Hand file folder or some paper to the lender.)**

Lender: *Flip through business plan.* It seems you only want to borrow \$1000 for some basic equipment. Is this correct?

**Borrower: Yes. It’s just what I need to start my office cleaning business.**

Lender: Well, here is your loan. *Give borrower 10 \$100 bills. Count them out as you give the loan.* You can borrow this for 12 months at 10%. So next month you will owe \$110 dollars.

**\*\*\*NEXT MONTH\*\*\***

**Borrower: Well, I’m here to pay my loan. \$110 dollars. Give the lender \$100 and then \$10.**

**Borrower: Based on my calculations, I only owe \$890 on my loan.**

Lender: Well, not quite. You owe \$900.

**Borrower: Wait, I don’t understand.**

Lender: Let’s see if there is someone who can explain it to you.

**Facilitator asks group to explain why the balance on the loan is \$900 NOT \$890.**