



Oklahoma Cooperative Extension Service
Oklahoma State University

Pathways to Success

A Basic Living Skills Curriculum

Getting and Managing Credit

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Leader Materials

Getting and Managing Credit

Objective: To help the learners understand how to get credit and manage a credit card.

Materials Needed: Pencils, several credit card offers from the mail (be sure to tear off application), banks and credit union sample credit reports from a credit bureau, and video, "Your Credit Record: Keeping It Clean"

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F	R	S	E	U	H	F	E	O	V	J	F	R	X	I	O	J	G
C	O	L	E	P	O	J	K	M	L	C	O	Q	Y	R	D	M	Z

To Say

To Do

Let's find some terms we will use in our lesson today. Can you tell me what a credit history is? How do you get a good credit rating?

The 3C's of getting credit are:

- C Capacity -- How much credit can a person handle? Capacity is a person's ability to pay.
- C Character -- Are you reliable? Do you pay bills on time? A good record of employment is important.
- C Collateral -- An item to secure the credit purchase such as a savings account to purchase a car with a loan.

Have learners do word search on page 1. When all learners are finished, explain the 3C's of getting credit.



Getting and Managing Credit

Today you will learn how to get credit and manage credit.

A J V U T Y Z G K D A G M S C F O C
 D I W L W A C A P A C I T Y L B J R
 G W C X V S K H E Q W B L T D G Z E
 L C R E D I T H I S T O R Y M R X D
 B H H M V J I F V R Q D K N E A M I
 K A U Q B W G R L S X O N U Z C G T
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 E T O Z S Y D D N U F J P V Z R H R
 R E Q F G B Z J Z E B S T P B I I E
 F R S E U H F E O V J F R X I O J G
 C O L E P O J K M L C O Q Y R D M Z

Find these words and circle:

Credit History	Credit Score	Character
Interest Rate	Fee	Capacity
Grace Period	Credit Bureau	

Throughout this lesson these credit terms will be explained.

To Say

To Do

Building a credit history is the first step before you can get credit. Credit is buying or borrowing money now and paying it back later.

A credit history is a record of how a person repays debt. There are several ways to build a good credit history.

Discuss pages 2-3.

Building a Credit History



Credit is buying or borrowing now and paying later.

Some people who are new to the use of credit wonder if they will get credit when they need it.

A person gets credit by building a credit history.

A person must prove he/she has the ability to manage credit. A person can do these things to build a good credit history.

S Open a checking and savings account.

Lenders think this is very important.

S Get a telephone put in and billed in your

name. Having a telephone is a form of credit. This is because you use the telephone service and pay for it a month later.



Building a Credit History



- § Go to a local store that offers a 60-90 day credit account. Ask the owner or manager if you can open an account to purchase a few items. This could be car tires or an appliance. When the bill arrives, pay it right away.
- § Apply for a bank credit card. The credit limit may be low -- may only be \$500.
- § Ask the bank where you have a checking account for a small short-term cash loan. Put this money into a savings account at the bank. Make the required payments for the next 3-5 months. Pay on time.

By doing these things you are starting a credit history. A **credit history** is a record of how a person repays debt. A bad credit history will give you a bad credit score.

To Say

After a person has established a credit history, the history is on file in a credit bureau. If you apply for credit, the lender may request a credit report from the credit bureau. The lender then rates the person's past history of paying bills and the ability to repay the debt. This is called a credit rating.

To Do

Discuss pages 4-5.
Obtain a sample credit report from a credit bureau to show a credit history. Try to obtain a bad and a good history. Discuss options for those with bad credit on page 6.

Show examples of a credit report from a credit bureau.

Your Credit Score

A person receives a credit rating. The credit score is determined by how a person repays debts. The repayment of a credit bill is part of a person's credit history.

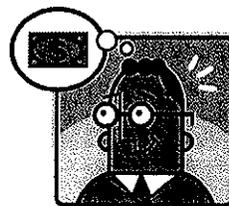
The credit history of a person is kept in a file by a credit bureau. A credit bureau or credit reporting agency keeps track of how people pay their bills. A business that sells things on credit or lends money reports to the credit bureau how people repay their bills. This information is put into a person's credit file.



A good credit score shows that a person repaid bills from credit cards, department stores, or a car loan on time. A good credit score is important.



A person who is always late or fails to make payments gets a poor credit score. A poor credit score may keep you from getting credit in the future. Or, it may keep you from renting a place to live, or getting a job.



*A Good Credit Score
Helps You in Many
Ways.*

But what if I have bad credit already?

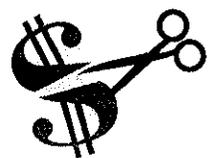
If you have bad credit, you can make it better over time. You do not need a "credit repair" company to do this. They charge \$600 to \$1,200 to do what you can do yourself.

1. Get a copy of your credit report. You can get one copy free each year from each of the three credit reporting agencies. That means three reports per year. Go to www.annualcreditreport.com.



2. Check your report and make sure all information is correct. If not, fill out form on back of report and mail it in or dispute online if you ordered online.

3. If you have old bills, pay them off a little at a time until all bills are paid.



4. Sometimes banks offer "secured" credit cards. You put down \$100 and they give you \$150 worth of credit.



5. Avoid small loan companies. They will probably give you money but there is not a limit on the amount they can charge you (often more than 400% interest).

6. If you cannot work this out alone, contact a Consumer Credit Counseling Service. They can help with reading and correcting your credit report, and working out a plan to make things better. This service is FREE! You can find the closest agency to you at www.nfcc.com.



To Say

To Do

Buying on credit sounds great because you don't have to pay the full price at the time you buy. A person needs to think about how much it will cost to use credit. A person may need to use credit for an emergency or for a large purchase.

Ask learners to read and discuss page 8.

Using Credit

Buying on credit sounds good. It sounds good because you do not have to pay the full price at the time you buy. Paying \$15 per month sounds better than paying \$150.00. If you plan to use credit, carefully think about it.



Reasons For Using Credit	Reasons For Not Using Credit
--------------------------	------------------------------

- | | |
|--|---|
| <ol style="list-style-type: none">1. You can buy an item when you don't have enough cash to pay for it.2. You can use things while paying for them.3. You can buy things on sale when you don't have cash.4. You may need credit for an emergency or make a large purchase such as a car. | <ol style="list-style-type: none">1. Costs more than paying cash.2. Buy things you do not need.3. Buy more than you can pay for.4. A person may not shop for the best buy. |
|--|---|



To Say

To Do

Selecting a credit card can be difficult when so many are available. Take the time to carefully look at the credit card offers. Read the fine print.

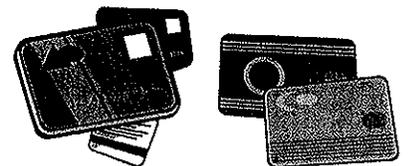
Read and discuss page 10.

Choosing a Credit Card

There are many choices when choosing a credit card.

Take time to look carefully for a good credit card. Consider these things:

- Annual fee
- Finance charge (Annual Percentage Rate - APR)
- Grace period
- Payment date
- Extra benefits



To Say

To Do

There are many “features” with each credit card. These are described in small print on the back of the application. You need to check these carefully. Sometimes they cost extra.

Read and discuss pages 11 and 12.

Let's look at each feature of a credit card.

(These are often in small print on the application.)

Finance charge - Look for a card with a low monthly finance charge. Banks generally offer cards with lower finance charges than travel, entertainment, department store and gasoline company cards.

Annual fee - Find a card with a low or no annual fee. Be aware of some credit cards that do not charge annual fees but charge a “fee” each time you use the card. Some cards will charge no “fee” the first six months and then a high annual fee is charged.

Grace period -- A 25-day grace period is common. This is the time between the billing date and due date of payment. You are actually getting a free loan when you pay the entire balance before the due date.

Payment date -- If you can choose a payment date, pick one near the date you receive your paycheck.

Credit life insurance costs extra. Companies want you to have it because it pays your bill if you die. It is often very expensive and not worth the cost.

Extra benefits -- Some credit cards issued by banks and credit unions offer small accidental death insurance coverage, usually \$1,000. There is no charge for this \$1,000 coverage. Some cards may offer travel discount options. Resist the many "come-ons." Think about the extra benefits and select carefully.

Default rates -- Most credit cards have a rate they will charge if you are late on payments. This rate is significantly higher than the usual rate.

To Say

To Do

Let's look at some credit card offers on page 13. Which credit card would be best for your situation?

Learners look at page 13 and decide on the best credit card offer.

Also, have learners look at several credit card offers from a bank, credit union and ones that come in the mail.

Credit Card Offers

The credit card summary sheet gives you practice in choosing a bank card. Look at the choices and choose the best one.

Credit Summary Sheet				
Lending Institution	Name of Credit Card	Annual % Rate	Annual Fee	Grace Period
National Bank	Vista	18.5	\$20	25 days
First Federal	Masterbank	14.75	\$20	25 days
Jefferson Savings	Masterbank	14.5	\$35	none
Mid-town Bank	Vista	16.5	\$25	25 days

Which card did you choose? _____

Why was the card you picked a better deal than the others? _____

To Say

To Do

Once you get a credit card it should be used wisely. The best is to not use a credit card unless necessary and to pay the bill in full each month. Interest on purchases is expensive. If you must use a credit card, write down the charges somewhere so you will not be surprised at the end of the month.

Always budget for your credit spending. It is easy to over-buy with a credit card.

If you cannot make a credit payment, contact the lender. Ask if the amount of the payment could be reduced.

Read and discuss pages 14-15.

Helpful Tips for Using Credit Cards

- § Always budget your credit buying.
- § Limit the number of credit cards you own -- two is the best choice. Major credit cards (Visa, MasterCard, American Express) can be used to buy most things.
- § Use credit only when doing so is to your benefit.
- § Keep records. Place credit card receipts in one place. Know how much you have charged so money will be available to pay the bill.
- § Buy items on credit that will last at least until the last payment is due. Never buy items on credit like groceries.
- § Make payments on time to keep a good credit score.
- § Never throw credit card statements in the trash. Shred them! This will make it hard for anyone to steal your card account number.



Helpful Tips

- § Do not give your credit card number over the phone to anyone unless you made the call.
- § Look at your monthly credit bill. If you find a wrong charge, write to the credit card company.
- § Keep a list of your credit card(s) including account number and telephone number of company that issued the card(s). Keep this list in a safe place. You may need this if a card is ever lost or stolen.
- § Report a lost or stolen card at once.
- § Contact the credit card company or lender, if for some reason you cannot make the payment on time. Most lenders will be willing to work with you because of illness, reduction in work hours, or if laid-off from the job.

To Say

To Do

Remember, buying on credit is not free.
You pay finance charges to use credit.

Read and discuss example on page 16. You may wish to develop several examples of items learners are likely to buy and have learners determine the cost of using credit.

Credit Costs Money

\$ \$ \$ \$

When you buy an item, you may pay cash for it -- if you have the money. Or you may be able to buy it on credit. When trying to decide to buy on credit or pay cash, compare the cash price with credit costs including finance charges. Find out how much more it costs to buy on credit. Then decide -- is it worth it?

Jim is trying to decide if he should purchase a DVD recorder with his credit card. Help Jim compare the cost of credit to cash purchase.



What advice do you give Jim?

To Say

To Do

It is wise to keep credit payments to less than 15% of your take-home pay. Getting a good credit rating and wisely managing credit are important to good money management.

Discuss page 17.

Control the Use of Credit

Use credit when you know you can pay for what you buy. Keep credit payments to less than 15% of your take-home pay. This includes credit purchases such as credit card charges, car loan, etc. If you cannot make the payments or pay on time, you may lose what you bought. You may also lose the money you have already paid to the lender. People who do not make their payments get a poor credit score. Then they may not be able to use future credit.

\$1,000 take-home pay
X .15 15% of income
\$150 credit limit per month



To Say

To Do

Let's help the people on page 18 solve their credit problems.

Answers:

1. Payments should be no more than 15%;
 $\$2,200 \times .15 = \330 .
2. Cash = \$69 Credit $\$75 + 20 = \95
3. B
4. 28% of income is going to debt payments
 - More work for Angela
 - Cut back and pay off credit cards
 - Cheaper car

Learners answer questions on page 18. The learners can summarize the lesson with page 19. Ask learners to name two things they learned about using credit.

Help the Following People Make Credit Decisions

1. John and Sue have credit payments of \$390.00 each month. They have take-home pay of \$2,200 each month. Should they buy more things on credit? _____ Why? _____

2. Jane can buy a new coat for \$69.00 cash or put down \$20.00 and make 5 payments of \$15.00 each. Which is the least expensive way to buy the coat?
_____ a. Cash
_____ b. Credit
3. Bob got a credit card account bill dated September 27. His credit card has a 30-day grace period. Which is the last day he will be able to pay the bill without paying interest?
_____ a. September 27
_____ b. October 27
4. Andre and Angela have monthly payments totaling \$320 on three credit cards plus a car payment of \$200 per month. All of the credit card payments are two months past due. Andre works full-time in a supermarket and Angela works part-time at a convenience store. Their combined monthly income is \$1,825.00
What has caused their credit problems? _____
What do you suggest to help Andre and Angela? _____

Remember: \$ \$

Credit Costs Money

\$ \$ \$ \$

You pay money to use credit.

Cost of Using a Credit Card = Price of Item + Finance Charge + Annual Card Fee

Before you buy with a credit card, find out how much it will cost after you have made all the payments.

Ask yourself, do you need the item now?

Can you wait and save the money to buy the item at a later time?

Getting a good credit score and wisely managing credit are important to good money management.

Extra Activities:

- Show video, “Your Credit Record: Keeping It Clean.” 30 min. Order from: Cambridge Educational, P.O. Box 2153, Dept. HE13, Charleston, WV 25328-2153. \$79.95.
- Show video, “Credit Cards: Living with Plastic.” (1991). 22 min. Order from: Learning Seed, 330 Telser Road, Lake Zurich, IL 60047; 1-800-634-4941. \$89.00.
- Have learners share interest rate and terms of credit card they may have had or now have. Also, have learners bring in credit offers they have received in the mail.
- Ask a bank officer to visit the class and speak on credit and what a person can do when they get themselves into money problems by using too much credit.
- Obtain a speaker from a credit bureau to speak to class.
- Ask your local consumer credit counseling service to speak to class.

Lesson References:

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