



Oklahoma Cooperative Extension Service  
Oklahoma State University

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# Pathways to Success

A Basic Living Skills Curriculum

## Getting and Managing Credit

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## 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  
 C R E D I T B U R E A U P W N E I S  
 X A T N Y C C I M T E I O O A P Q C  
 P C Y R I N T E R E S T R A T E K O  
 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.

## 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.

\$ Open a checking and savings account.

Lenders think this is very important.

\$ 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.

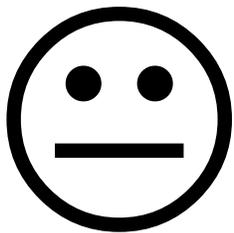
## Your Credit Score

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](http://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](http://www.nfcc.com).



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



# Sample Credit Application

Take time to fill out this credit application.

Before completing the application, you should be able to answer "Yes" to the following statements by checking the boxes:

Yes, my credit history is clear of bankruptcy.

Yes, my credit history is clear of seriously delinquent accounts.

Yes, I have NOT been denied credit by Chase within the last 6 months.

### Please Tell Us About Yourself

Your entries must consist of alpha-numeric characters only (e.g., characters such as "", "\$", "#", and commas will not be accepted in some fields).

Do you have a Chase online User ID and Password?  Yes  No [Why do we ask for this?](#)

Please enter First Name\*  MI  Please enter Last Name\*  Suffix

NOTE: Your name will appear on your card as depicted above.

SSN:\*  [Why do we ask for this?](#) Date of Birth:\*  (MM/DD/YYYY)

Residential Address Line 1:\*  Unit/Apt #:\*  Residential Address Line 2:\*

City:\*  State  Zip Code:\*

(You must be a U.S. resident to apply. No P.O. Boxes please)

Home Phone:\*  Lived There:\*  Years  Months

(Please do not use hyphens)

Cell Phone Number:  [Why do we ask for this?](#)

Mother's Maiden Name:\*  E-mail Address:\*

[Why do we ask for this?](#)

### Please Tell Us About Your Job

(If retired, note previous employer. If self-employed, note nature of business.)

Position:\*

Employer:\*  Worked There:\*  Years  Months

Alternate Phone:\*

(Please do not use hyphens)

### Please Provide Some Financial Information

Allimony, child support or separate maintenance income need not be revealed if you do not wish it to be considered as a basis for repaying this obligation.

Annual Household Income:\* \$ .00 Select Residence:\*

(Please do not use commas.)

Please select the type(s) of bank account(s) you have:\* Monthly Rent or Mortgage:\* \$ .00 (Please do not use commas.)

### Authorized User

Yes, please send a second card at no extra cost for:

First Name:  M.I.:  Last Name:

### Balance Transfer Option

Transfer to my new account the amount(s) shown from the MasterCard®, VISA®, Discover® or American Express® account(s) listed below. If not transferring a balance, please leave blank. **Please do not use commas in the amount fields.**

Account Number:  Amount: \$

Account Number:  Amount: \$

Account Number:  Amount: \$

### Authorization

By submitting this application, I agree to the following:

- Everything I have stated in my application is true and correct.
- My personal credit history is clear of bankruptcies.
- I have read and agree to all the pricing and other terms on the previous pages and screens.
- By using the account or any card, or authorizing their use, I agree to the terms of the Cardmember Agreement that I will receive with my card(s).
- The terms of my account, including the APRs, are subject to change. Any such changes will be made in accordance with the Cardmember Agreement.

SCROLL DOWN FOR IMPORTANT INFORMATION ABOUT RATES, FEES AND OTHER COSTS. PLEASE GO BACK UP AND CHECK ALL ANSWERS CAREFULLY BEFORE SUBMITTING YOUR APPLICATION. DO NOT SUBMIT MORE THAN ONE APPLICATION.

## 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



## **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.

## 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.

<b>Credit Summary Sheet</b>				
<b>Lending Institution</b>	<b>Name of Credit Card</b>	<b>Annual % Rate</b>	<b>Annual Fee</b>	<b>Grace Period</b>
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? \_\_\_\_\_

\_\_\_\_\_

## 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.

## 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? \_\_\_\_\_

\_\_\_\_\_

## 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 <u>   .15</u>	15% of income
\$150	credit limit per month



## 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? \_\_\_\_\_

