

YOUR FINANCIAL ROAD MAP: WHERE DO YOU WANT TO GO?

DAY: 9

TITLE: YOUR FINANCIAL ROAD MAP – Credit: New Rules, Scores & Debt

TARGET COMPETENCY: Select strategies to use in handling credit and managing debt

OBJECTIVES:

- Understand the recent credit card changes under The Credit Card Act of 2009
- Understand the origins and role of the new Consumer Protection Finance Bureau (CPFB)
- Explain the importance of establishing and maintaining a strong credit score, and understand the consequences associated with a poor score
- Learn where to obtain a free credit report online
- Gain strategies for staying out of debt

HANDOUTS/MATERIAL:

- NEFE Unit 4 — Using Credit Wisely
 - Student Guide (pg. 47-57)
 - NEFE PPT – Unit 4
- Handout: *What Does the Credit Card Mean to the Average Person or What You Need to Know about the new Credit Card Rules* (from Federal Reserve)
- Handout: *Credit Scores*
- Handout: *Fixing Credit Mistakes*
- Internet access – for online loan calculator

LESSON SUMMARY:

Teenagers (and many adults!) see credit as route to instant gratification, getting what they want now and figuring out how to pay for it later. They may not realize that credit is a double-edged sword —a value tool when handled wisely, but a debt trap when handled poorly. The key to understanding credit is learning about the various costs of using it: interest rates, fees, penalties, and even opportunity cost. These costs are critical factors in making good decisions about whether using credit is appropriate or not.

LESSON OUTLINE:

MINUTES	CONTENT
	<p>Note: The Credit Lesson is broken into several days:</p> <ul style="list-style-type: none">• The basics of credit – some vocabulary, how to get it, pros and cons• Understanding credit cards and your credit score – reading statements, reviewing new changes in credit laws, learning about credit scores: why important, where and how to get yours, how to keep it strong, and how to respond to inaccurate credit scores.• Debt – the dark side of credit. Strategies for avoiding debt, understanding the impact of too much debt, what to do if you are there.

<p>10</p>	<p>Wall Street Reform & The Credit Card Act</p> <p>The financial crisis in 2009 lead the government to imposed stronger regulations on the banking industry. A major outcome was The Credit CARD Act, which is often called the Credit Cardholders Bill of Rights. President Obama signed the bill into law in May, 2009. Many of the most significant provisions of the law took effect in February, 2010. The law has two main purposes:</p> <ul style="list-style-type: none"> • FAIRNESS <p>Prohibit certain practices that are unfair or abusive such as hiking up the rate on an existing balance or allowing a consumer to go over-limit and then imposing an over-limit fee.</p> <ul style="list-style-type: none"> • TRANSPARENCY <p>Make the rates and fees on credit cards more transparent so consumers can understand how much they are paying for their credit card and can compare different cards. (You may want to review a copy of a recent credit card statement --available at the Fed link below-- to show students the kinds of reporting credit issuers much now include on monthly statements.)</p> <p>Specific changes are outlined in the Federal Reserve document http://www.federalreserve.gov/consumerinfo/wyntk_creditcardrules.htm (Also, see handout: <i>What Does the Credit Card Mean to the Average Person</i>)</p> <p>New consumer agency: Consumer Finance Protection Bureau (CFPB) was established to ensure that these new laws are enforced and to create an umbrella over all the financial agencies that touch on banks and consumers. Visit the website and watch a brief video (3:17 minutes): http://www.consumerfinance.gov/the-bureau/</p>
<p>5</p>	<p>What the Credit Card Act Means for the Under-21 Crowd</p> <p>Review these important changes to credit cards:</p> <ul style="list-style-type: none"> • Credit card issuers must verify proof of income or otherwise require a co-signer before issuing a credit card to consumers under the age of 21. • Credit card issuers cannot send pre-screened card offers to those under 21 unless they have consented to receive such offers. • Card issuers cannot raise the credit limit on an account for persons under 21 with a co-signer, without written permission from the co-signer. • Credit card issuers are prohibited from providing free items in exchange for applications when marketing to students on or near campus. The days of "credit card swag" (free t-shirts, frisbees), in exchange for credit card applications are over. Rewards programs offered with credit cards are still allowed.

	<ul style="list-style-type: none"> • Source: http://www.credit.com/blog/2010/08/what-the-credit-card-act-means-for-the-under21-crowd/ <p>Discussion: Critics of these new rules claim that without the additional financial education requirements, students will be no more financially savvy at 21 than they are at 18.</p> <ul style="list-style-type: none"> • Do you agree? Should 18 year olds be allowed credit without a co-signor? • Do you feel the student protections go far enough? Or do they do exactly what they should?
20	<p>4 C's of Credit</p> <p>The first thing a lender does when you apply for credit is to check your creditworthiness, which will determine how much – if any – to lend you. What all lenders look for is often referred to as the 4C's of credit.</p> <p>Show PPT slides 4-L to explain the 4C's of Credit (ask for examples):</p> <ul style="list-style-type: none"> • Collateral - a car, house, business • Capital - savings, something that can be sold • Capacity – a job, steady employment, amount of existing debt • Character – history of paying bills on time, no defaults <p>Together, look at the loan application on pg. 48 (Student Guide). Ask the following questions:</p> <ul style="list-style-type: none"> • What information on the application reveals your collateral? Capital? Capacity? Character? • What can you do to make your credit application more appealing to a creditor (ex. Increased length of time at a single address, increased income, etc)? • Think about your own creditworthiness. What are some specific examples of how you meet the 4C's? <p>Credit Report: Stress to students that everyone should check their FREE credit report once a year from www.annualcreditreport.com. Beware of websites offering free reports and privacy protection (like those fun commercials of the guys in a band). Distribute a copy of the sample credit report to review together in class.</p>

<p>10</p>	<p>Your Credit Score</p> <p>Explain the difference between a Fico Score and a credit report. Visit What’s in Your Fico Score (online or distribute copies of <i>Credit Scores</i>) to see the pie chart: http://www.myfico.com/CreditEducation/WhatsInYourScore.aspx</p> <p>FICO Scores are calculated from a lot of different credit data in your credit report. This data can be grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining your FICO score:</p> <ul style="list-style-type: none"> 35% - Payment History 30% - Amount Owed 15% - Length of Credit 10% - New Credit 10% - Types of Credit <p>Brainstorm answers as a class to the following questions:</p> <ul style="list-style-type: none"> • Who uses credit scores and credit reports? A sample list includes: bankers, prospective employers, prospective landlords, mortgage loan officers, cell phone companies, and YOU! • Why do others need your credit score/report? To check to see if you can pay back a loan, keep your rent current, or if you are trustworthy. • How do you build and keep your credit score/report strong? Pay bills on time, don’t have too much credit debt, check regularly to ensure you’re not a victim of identity theft, manage different kinds of debt (installment and revolving), show that you can carry a balance responsibly, etc. <p>Discuss the difference between “no credit history” and a “bad credit history.” Both may not be received well by lenders, but it is much easier to CREATE a new credit history than it is to REPAIR an old one.</p> <p>(Show PPT slides 4M - O – Get and Keep a Good Score and Protect Yourself Against Inaccurate Credit Reports)</p>
<p>10</p>	<p>The Dark Side of Credit</p> <p>Share with students the cost of not maintaining a good credit score Beware: Your purchase may be long gone, but the negative information will stick around:</p> <ul style="list-style-type: none"> • Credit accounts not paid = 7 years • Collection accounts = 7 years • Most public records = 7 years • Bankruptcy = 10 years • Unpaid tax liens* = indefinitely

	<ul style="list-style-type: none"> • Unpaid student loans* = indefinitely * <i>Once paid, the information will remain on your credit for 7 years</i> <p>Review the Minimum Payment Warning on Credit Card Statements http://www.federalreserve.gov/consumerinfo/wyntk_creditcardrules.htm</p> <p>Other ways to explain the full cost of debt:</p> <ol style="list-style-type: none"> 1. Create a chart to show the real costs of not paying your credit card in full each month, 2. Use the Cost of Credit calculator to estimate for the full cost of an item: http://www.practicalmoneyskills.com/calculators/calculate/costOfCredit.php?calcCategory=debt 3. Explain that low credit scores will cost people more in interest rates (which can have a huge impact on home and car loans). In some cases, poor credit holders won't even qualify for loans. <p>Review pgs 55 in Student Guide to discuss the Dark Cloud of Debt.</p>
<p>10</p>	<p>Debt Reduction</p> <p>Four Critical Steps:</p> <ol style="list-style-type: none"> 1. <u>Don't ignore the problem.</u> Always open bills. Call your lender if you know you're going to be late on a bill. 2. <u>Contact a non-profit credit counseling professional.</u> Mention services like the Consumer Credit Counseling Services of Nevada: http://www.ccsnevada.org/ 3. <u>Negotiate a payment plan with your lender.</u> Many are willing to work with you to ensure that payments are made. 4. <u>Don't pay someone to "fix your credit."</u> Only YOU can do that. These offers are scams and will only cost you more money in the long run. <p>Brainstorm ways to stay out of debt, making a list on the white board. Show this comedy skit: Don't Buy Stuff You Can't Afford (2:28 minutes) – from Saturday Night Live. http://www.hulu.com/watch/1389/saturday-night-live-dont-buy-stuff</p>
<p>5</p>	<p>Assessment</p> <p>Briefly respond to these questions on a sheet of paper:</p> <ol style="list-style-type: none"> 1. What is the name of the newly formed federal bureau designed to protect credit card consumers? 2. Name at least 2 of the 4 C's of credit? 3. Name one person or entity that would look at your credit report, and explain why they would be interested. 4. Name two strategies for building a good credit score. 5. Where can you get a free credit report once a year?

HOMEWORK:

- Obtain your credit “report card” or credit report for free.
- Exercise 4H (pg. 57) in NEFE Student Guide

ONLINE RESOURCES:

Annual Credit Report.com

<https://www.annualcreditreport.com/cra/index.jsp>

This central site allows you to request a free credit file disclosure, commonly called a credit report, once every 12 months from each of the nationwide consumer credit reporting companies: Equifax, Experian and TransUnion.

Credit.com

<http://www.credit.com/>

Obtain free credit “report card.” May incur costs if you want to obtain your specific credit score and file. Also, contains useful articles and blogs re: relevant topics.

Credit Bureaus

Equifax - <http://www.equifax.com>

Experian - <http://www.experian.com>

TransUnion - <http://www.transunion.com>

My Fico: Credit Score Info

<http://www.myfico.com/CreditEducation/>

Contains useful visual and content regarding credit scores – what they are, how to keep them in good standing, how to fix errors or build a stronger score, along with other helpful information about loans.

Understanding Your Credit Score – 20 pg. booklet

<http://www.myfico.com/crediteducation/brochures.aspx>

What’s My Score: Everything you need to know about your credit

<http://whatsmyscore.org/index.php>

This VISA produced website for the young adult audience includes funny videos, tips, **videos**, and online tools to showcase the importance of establishing and maintaining a strong credit score.

Credit Card Bill - simulation

http://www.gemoney.com/flash/CC_Bill/index.html

The website generates virtual credit card bills for the students to see the impact of different interest rates and payment amounts.

DEBT: If you want to spend additional time discussing the issue (and consequences) of debt, consider adding additional time to this lesson.

PBS Video – “Your Life, Your Money)

Chapter 3: Digging Out of Debt (10:31)

College student Amanda McCormick discovers the difficult consequences of credit card debt after she finds herself in \$30,000 of debt shortly after getting a few credit cards.

Did you know? *The average debt for 22-29 year olds is \$16,120.*

Post-viewing discussion

- Does everyone need credit? What are the advantages and disadvantages?
- Do you agree with this statement: You can only get into debt if you have a lavish lifestyle and buy a lot of things you don't need like expensive clothes, cool cars and flashy jewelry> Why or why not?
- In this segment, how did Amanda get into credit card debt?
- What is Amanda doing to try to get out of debt?