Using Credit to Your Advantage

**Topic Overview**
The Using Credit To Your Advantage topic will provide participants with all the basic information they need to understand credit—what it is and how to make it work for them. Participants will learn about their credit score and credit report and how to use credit cards and loans the smart way. Finally, participants will be coached how to deal with debt problems.

This topic includes eight lessons:

1. Your credit picture
2. What is credit?
3. Your credit score
4. Your credit report
5. Credit cards
6. Loans
7. Dealing with debt
8. Recap

These lessons include a number of hands-on participant activities. Use these activities to help simulate real-world scenarios and activities with your participants.

This instructor guide is based on and follows the structure of the online Hands on Banking® program. We invite you to use and experience the online program as it is an excellent resource that will support your instructional efforts and enhance your participants’ experience. It includes a variety of interactive lessons and many helpful resource library articles to augment this guide. Visit www.handsonbanking.org to access the program. Should you require a CD ROM to access the program you may request a free copy at HOBCD@wellsfargo.com.
## Topic 4 — Using Credit To Your Advantage

### Instructor’s Guide — Adults

#### Table of Contents

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topic Overview</td>
<td>1</td>
</tr>
<tr>
<td>Glossary</td>
<td>4</td>
</tr>
<tr>
<td>Lesson 1: Your Credit Picture</td>
<td>9</td>
</tr>
<tr>
<td>What’s Your Credit Picture? Activity (Instructor Copy)</td>
<td>10</td>
</tr>
<tr>
<td>Lesson 2: What is Credit?</td>
<td>12</td>
</tr>
<tr>
<td>The Benefits—and Risk—of Credit (Instructor Copy)</td>
<td>13</td>
</tr>
<tr>
<td>Good Credit vs. Bad</td>
<td>15</td>
</tr>
<tr>
<td>How to Establish Credit Activity (Instructor Copy)</td>
<td>16</td>
</tr>
<tr>
<td>The “Five Cs” of Credit Activity (Instructor Copy)</td>
<td>18</td>
</tr>
<tr>
<td>Lesson Summary</td>
<td>20</td>
</tr>
<tr>
<td>Lesson 3: Your Credit Score</td>
<td>21</td>
</tr>
<tr>
<td>Your Credit Score Quiz (Instructor Copy)</td>
<td>22</td>
</tr>
<tr>
<td>Your Credit Score</td>
<td>24</td>
</tr>
<tr>
<td>Credit Score Impact (Instructor Copy)</td>
<td>25</td>
</tr>
<tr>
<td>Improve Your Credit Score Activity (Instructor Copy)</td>
<td>27</td>
</tr>
<tr>
<td>Lesson Summary</td>
<td>30</td>
</tr>
<tr>
<td>Lesson 4: Your Credit Report</td>
<td>31</td>
</tr>
<tr>
<td>How to Obtain Your Credit Report Discussion</td>
<td>32</td>
</tr>
<tr>
<td>How to Read Your Credit Report</td>
<td>34</td>
</tr>
<tr>
<td>Details of Your History</td>
<td>37</td>
</tr>
<tr>
<td>Scenario: Finding an Error (Instructor Copy)</td>
<td>39</td>
</tr>
<tr>
<td>Lesson Summary</td>
<td>41</td>
</tr>
<tr>
<td>Lesson 5: Credit Cards</td>
<td>42</td>
</tr>
<tr>
<td>The Basics of Credit Cards</td>
<td>43</td>
</tr>
<tr>
<td>Choosing the Right Card For You</td>
<td>45</td>
</tr>
<tr>
<td>Save Money on Interest Activity (Instructor Copy)</td>
<td>47</td>
</tr>
<tr>
<td>Use Credit Cards Responsibly Quiz (Instructor Copy)</td>
<td>50</td>
</tr>
<tr>
<td>How to Use Credit Cards Responsibly (Instructor Copy)</td>
<td>52</td>
</tr>
<tr>
<td>How to Read Your Credit Card Statement</td>
<td>54</td>
</tr>
<tr>
<td>Credit Card Statement Matching Activity (Instructor Copy)</td>
<td>58</td>
</tr>
<tr>
<td>Credit Card Safety (Instructor Copy)</td>
<td>61</td>
</tr>
<tr>
<td>Lesson Summary</td>
<td>63</td>
</tr>
</tbody>
</table>
# Topic 4 — Using Credit To Your Advantage

## Instructor’s Guide — Adults

### Table of Contents

<table>
<thead>
<tr>
<th>Lesson 6: Loans</th>
<th>64</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compare the Terms Discussion (Instructor Copy)</td>
<td>65</td>
</tr>
<tr>
<td>Compare the Interest Rates (Instructor Copy)</td>
<td>67</td>
</tr>
<tr>
<td>The Loan Process Activity (Instructor Copy)</td>
<td>70</td>
</tr>
<tr>
<td>Choose a Lender the Smart Way</td>
<td>73</td>
</tr>
<tr>
<td>Potential Warning Signs to Watch For (Instructor Copy)</td>
<td>74</td>
</tr>
<tr>
<td>You’re at Risk Activity (Instructor Copy)</td>
<td>78</td>
</tr>
<tr>
<td>Scenario Activity—Choosing a Lender (Instructor Copy)</td>
<td>80</td>
</tr>
<tr>
<td>If the Lender Says No Activity (Instructor Copy)</td>
<td>83</td>
</tr>
<tr>
<td>Scenario Activity: Managing a Loan (Instructor Copy)</td>
<td>85</td>
</tr>
<tr>
<td>Lesson Summary</td>
<td>87</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lesson 7: Dealing with Debt</th>
<th>88</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use Credit Wisely</td>
<td>89</td>
</tr>
<tr>
<td>Warning Signs of Too Much Debt Discussion</td>
<td>91</td>
</tr>
<tr>
<td>Tips for Dealing with Debt (Instructor Copy)</td>
<td>93</td>
</tr>
<tr>
<td>What is Bankruptcy?</td>
<td>96</td>
</tr>
<tr>
<td>Bankruptcy Fill-in-the-Blank Activity (Instructor Copy)</td>
<td>97</td>
</tr>
<tr>
<td>Lesson Summary</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Topic Summary</th>
<th>101</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Activities</td>
<td>101</td>
</tr>
<tr>
<td>Appendix</td>
<td>102</td>
</tr>
</tbody>
</table>
Glossary

Instructor note:
The Glossary contains definitions and descriptions of valuable terms and phrases related to this topic. Encourage your participants to use the Glossary during and after the class to become more familiar and comfortable with the terminology.

Photocopy the glossary on the next page and hand it out to your participants.
# Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual fee</strong></td>
<td>The fee a credit card company charges a credit card holder to use the card for a year. Or, the fee a lender charges a borrower for the use of a line of credit for a year.</td>
</tr>
<tr>
<td><strong>Annual percentage rate (APR)</strong></td>
<td>A measurement used to compare different loans, the APR takes into account a loan’s interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost borrowing.</td>
</tr>
<tr>
<td><strong>Asset</strong></td>
<td>Anything of value owned by a person or company. For example, a person's assets might include cash, a house, a car, and stocks. A business's assets might include cash, equipment, and inventory.</td>
</tr>
<tr>
<td><strong>Available balance</strong></td>
<td>The amount of money in your account that you can use or withdraw. Your available balance may not reflect all transactions that you have made, for example checks you have written that have not yet been paid from your account.</td>
</tr>
<tr>
<td><strong>Bad credit</strong></td>
<td>A situation in which lenders believe that, due to a borrower's poor history of repaying his or her debts, further loans to this person would be especially risky.</td>
</tr>
<tr>
<td><strong>Balloon payment</strong></td>
<td>A final lump sum payment that is due, often at the maturity date of a balloon mortgage.</td>
</tr>
<tr>
<td><strong>Bankruptcy</strong></td>
<td>To legally declare yourself unable to repay your debts. A bankruptcy remains on a person's credit history for up to seven years. Depending on the type of bankruptcy, it could stay on a person's credit history for up to ten years.</td>
</tr>
<tr>
<td><strong>Capacity</strong></td>
<td>A borrower’s ability to make monthly loan payments. When reviewing loan applications, lenders look at a borrower’s income and debts to determine his or her capacity to repay.</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>The assets a borrower owns, for example a car, or cash in a savings account minus your liabilities. If a borrower is unable to make his or her loan payments, a lender might use these assets to pay the debt. Capital is also known as collateral or assets.</td>
</tr>
<tr>
<td><strong>Cardmember agreement</strong></td>
<td>Are the Terms and Conditions of your credit card account. It includes information such as the rate, fees, and other cost information associated with the account.</td>
</tr>
<tr>
<td><strong>Character</strong></td>
<td>The financial steadiness and stability of a borrower. For example, when reviewing your loan application, a lender may look at how long you've lived at your current address or worked at your current job.</td>
</tr>
<tr>
<td><strong>Collateral</strong></td>
<td>Any assets of a borrower (for example, a home) that a lender has a right to take ownership of if the borrower doesn't repay the loan as agreed.</td>
</tr>
<tr>
<td><strong>Collection agency</strong></td>
<td>A business that specializes in collecting past due debts.</td>
</tr>
<tr>
<td><strong>Conditions</strong></td>
<td>Eligibility requirements that may be considered by a lender to secure a loan or product e.g. local economy, competition, etc.</td>
</tr>
</tbody>
</table>
Glossary

Credit
When a bank or business allows its customers to purchase goods or services on the promise of future payment. Also used to describe any item that increases the balance in a bank account. Deposits and interest payments are both examples of credits.

Credit bureau
A company that gathers information on consumers who use credit. These companies send this information to lenders and other businesses in the form of a credit report. The three largest bureaus are Equifax, Experian, and TransUnion.

Credit check
A lender, landlord, employer, or insurer’s inquiry at a credit bureau for the purpose of evaluating the credit history of an applicant.

Credit counselor
A professional advisor who specializes in helping people with debt and credit problems.

Credit history
A written record of a person’s use of credit, including applying for credit, and using credit or loans to make purchases. Also called a credit record.

Credit insurance
When you apply for a mortgage or personal loan you may be asked if you want to purchase credit insurance. This credit policy protects the loan on the chance that you can’t make your payments. Credit insurance usually is optional, which means you don’t have to purchase it from the lender.

Credit limit
The maximum dollar amount the lender is willing to make available to the borrower according to the agreement between them. For example, if you have a credit card, the credit agreement will usually specify the maximum amount of money you’re allowed to charge.

Credit rating
An evaluation of an individual’s or business’s financial history and the ability to pay debts. Lenders use this information to decide whether to approve a loan. The credit rating is usually in the form of a number or letter.

Credit record
Also known as your credit history when provided by a credit bureau to a lender or other business.

Credit report
A report issued by an independent credit agency that contains information concerning a loan applicant’s credit history and current credit standing.

Credit score
A numerical rating that indicates an individual’s creditworthiness based on a number of criteria. Credit scores are used by lenders in the loan approval decision process. (FICO)

Creditworthiness
A lender’s measure of an individual or company’s ability to pay debt.

Debt
Money, goods, or services you owe to others.

Debt-to-income ratio
A percentage that is calculated by dividing a loan applicant’s total debt payments by his or her gross income.

Default
Failure to repay a credit agreement according to its terms.
Glossary

Equal Credit Opportunity Act (ECOA) A federal law to ensure that all consumers are given an equal chance to obtain credit. This doesn't mean all consumers who apply for credit get it; factors such as income, expenses, debt, and credit history are considerations for creditworthiness.

Equity The value of your investment above the total of your lien (debt).

Establishing credit Giving lenders the trust and confidence to make loans to you based on a good history of paying your debts.

Fees Charges for services by a financial institution or lender.

Finance charge The amount of money a borrower pays to a lender for the privilege of borrowing money, including interest and other service charges.

Good credit A situation in which lenders are willing to make loans to an individual, due to his or her good history of repaying debts.

Guarantee / Guaranty A lender may require an additional signature on a loan to insure that this person will pay the loan if you do not.

Installment loan A loan that is repaid to the lender in equal amounts, over a fixed period of time. Sometimes may be referred to as Installment Credit.

Installment payment An amount of money repaid to a lender according to the terms of an installment loan.

Interest The amount of money paid by a borrower to a lender in exchange for the use of the lender’s money for a certain period of time. For example, you earn interest from a bank if you have a savings account and you pay interest to a lender if you have a loan.

Interest rate The amount of interest paid per year divided by the principal amount (that is, the amount loaned, deposited, or invested). For example, if you paid $500 in interest per year for a loan of $10,000, the interest rate is 500 divided by 10,000, or five percent (5%).

Late fees The charge or fee that is added to a loan or credit card payment when the payment is made after the due date.

Lenders, creditors A business that makes money available for others to borrow.

Loan An agreement between a borrower and a lender, where the borrower agrees to repay money with interest over a period of time.

Long-term loan A loan that can be paid back over a period of more than one year, usually requiring interest payments.

Net income For a business, the amount of money earned after all expenses and taxes. For an individual, total take-home pay after all deductions (taxes, social security, etc.). Also called after tax income or net salary.

Net worth The value of a company or individual’s assets. Including cash, less total liabilities.
### Topic 4 — Using Credit To Your Advantage

#### Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding balance</td>
<td>The amount still owed on a bill, loan, or credit line.</td>
</tr>
<tr>
<td>Past due</td>
<td>A bill that is not paid by its due date is said to be past due.</td>
</tr>
<tr>
<td>Predatory lending</td>
<td>When lenders conduct business in ways that are illegal or not in the best interest of borrowers, using tactics that are fraudulent, deceptive, or discriminatory and, as a result, cause the borrower to have difficulties in making payments as agreed.</td>
</tr>
<tr>
<td>Principal</td>
<td>The total amount of money borrowed, loaned, invested, etc., not including interest or service charges.</td>
</tr>
<tr>
<td>Revolving credit</td>
<td>A type of credit allowing an individual to borrow up to a certain amount of money, repay the money borrowed with interest when it is due, and then borrow the money again. The most popular kind of revolving credit account is the credit card.</td>
</tr>
<tr>
<td>Secured credit card</td>
<td>A credit card secured by a savings account. The money in the savings account is collateral and may be claimed by the company issuing the card if the account holder fails to make the necessary payments. Using a secured credit card, and paying according to the terms of the agreement, can be a good first step for individuals or businesses that want to establish or rebuild their credit.</td>
</tr>
<tr>
<td>Spending limit</td>
<td>The maximum dollar amount the lender is willing to make available to the borrower according to the agreement between them. For example, if you have a credit card, the credit agreement will usually specify the maximum amount of money you're allowed to charge.</td>
</tr>
<tr>
<td>Statement</td>
<td>A monthly accounting document sent to you by your bank that lists your account balance at the beginning and end of the month, and all of the checks you wrote that your bank has processed during the month. Your statement also lists other deposits, deductions, and fees, such as service charges.</td>
</tr>
<tr>
<td>Term</td>
<td>A period of time over which a loan is scheduled to be repaid. For example, a home mortgage may have a 30-year term, meaning it must be repaid within 30 years.</td>
</tr>
<tr>
<td>Unpaid balance</td>
<td>The amount that is still owed on a loan or credit card debt.</td>
</tr>
</tbody>
</table>
Lesson 1: Your Credit Picture

What’s Your Credit Picture? Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. Instruct participants to read each statement and
decide whether or not it accurately describes their credit situation today.

After they are finished, ask participants to count how many true statements they have. Tell them if they
have 8 or more true statements, they’re on their way to using credit to their advantage. If not, there’s
some work to do. Advise participants to keep this sheet and refer to it often as they go about improving
their credit situation.

Instructions:
Have participants read each statement in the Credit Situation column. Have them decide whether
this statement accurately describes their credit picture today. Have them write “True” or “False” in
the right column.

<table>
<thead>
<tr>
<th>Your Credit Situation</th>
<th>True or False?</th>
</tr>
</thead>
<tbody>
<tr>
<td>I manage my savings and checking account well and never spend more than my balance.</td>
<td></td>
</tr>
<tr>
<td>I frequently monitor the activity in my accounts.</td>
<td></td>
</tr>
<tr>
<td>I have one or more credit cards and pay my bill on time, every month.</td>
<td></td>
</tr>
<tr>
<td>I pay as much of my credit card bill as I can each month—always at least the</td>
<td></td>
</tr>
<tr>
<td>minimum amount.</td>
<td></td>
</tr>
<tr>
<td>Less than 10% of my monthly income goes toward paying off credit card bills.</td>
<td></td>
</tr>
<tr>
<td>I always comparison shop for credit cards and loans.</td>
<td></td>
</tr>
<tr>
<td>I never sign loan papers unless I completely understand the terms first.</td>
<td></td>
</tr>
<tr>
<td>I have built my credit by taking out a small loan and repaying it monthly—</td>
<td></td>
</tr>
<tr>
<td>in full and on time.</td>
<td></td>
</tr>
<tr>
<td>I know what my current credit score is.</td>
<td></td>
</tr>
<tr>
<td>I know how I can improve my credit score and have taken steps to do so.</td>
<td></td>
</tr>
<tr>
<td>I know how to order a free copy of my credit report.</td>
<td></td>
</tr>
<tr>
<td>I have reviewed my credit report in the last 12 months and checked it for errors.</td>
<td></td>
</tr>
<tr>
<td>If I find an error in my credit report, I know how to get it corrected.</td>
<td></td>
</tr>
<tr>
<td>My total debt is less than 20% of my annual net income.</td>
<td></td>
</tr>
<tr>
<td>If I’m having problems repaying a debt, I contact the lender right away to</td>
<td></td>
</tr>
<tr>
<td>discuss what to do.</td>
<td></td>
</tr>
</tbody>
</table>
What’s Your Credit Picture? Activity

Instructions:
Read each statement in the Credit Situation column. Decide whether this statement accurately describes your credit picture today. Write “True” or “False” in the right column.

<table>
<thead>
<tr>
<th>Your Credit Situation</th>
<th>True or False?</th>
</tr>
</thead>
<tbody>
<tr>
<td>I manage my savings and checking account well and never spend more than my balance.</td>
<td></td>
</tr>
<tr>
<td>I frequently monitor the activity in my accounts.</td>
<td></td>
</tr>
<tr>
<td>I have one or more credit cards and pay my bill on time, every month.</td>
<td></td>
</tr>
<tr>
<td>I pay as much of my credit card bill as I can each month—always at least the minimum amount.</td>
<td></td>
</tr>
<tr>
<td>Less than 10% of my monthly income goes toward paying off credit card bills.</td>
<td></td>
</tr>
<tr>
<td>I always comparison shop for credit cards and loans.</td>
<td></td>
</tr>
<tr>
<td>I never sign loan papers unless I completely understand the terms first.</td>
<td></td>
</tr>
<tr>
<td>I have built my credit by taking out a small loan and repaying it monthly—in full and on time.</td>
<td></td>
</tr>
<tr>
<td>I know what my current credit score is.</td>
<td></td>
</tr>
<tr>
<td>I know how I can improve my credit score and have taken steps to do so.</td>
<td></td>
</tr>
<tr>
<td>I know how to order a free copy of my credit report.</td>
<td></td>
</tr>
<tr>
<td>I have reviewed my credit report in the last 12 months and checked it for errors.</td>
<td></td>
</tr>
<tr>
<td>If I find an error in my credit report, I know how to get it corrected.</td>
<td></td>
</tr>
<tr>
<td>My total debt is less than 20% of my annual net income.</td>
<td></td>
</tr>
<tr>
<td>If I’m having problems repaying a debt, I contact the lender right away to discuss what to do.</td>
<td></td>
</tr>
</tbody>
</table>
Lesson 2: What is Credit?

This lesson provides an easy-to-understand introduction to credit, how it can benefit participants and the risks they should watch out for. Participants will learn the differences between good and bad credit, how to build credit and the "five C's"—how lenders evaluate credit worthiness.

Learning Objectives
After completing this lesson, participants will be able to:

- Define credit
- Describe how credit can benefit them
- List risks to be aware of when dealing with credit
- Explain the differences between good and bad credit
- Explain how to build good credit
- Define the 5 C's—how lenders evaluate credit worthiness

Start the Discussion
To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- When did you receive your first credit card?
- Describe your first experience with credit.
- Did you understand the concept of credit at that point?
- Are there risks you take when you take out a loan or use your credit card? How can you minimize these risks?
- Do you know your "credit worthiness" as defined by your lenders?

The Basics
Credit is the ability to borrow money.

- There are lots of situations where people borrow money: car loans, credit cards, student loans, etc. In each case, you’re borrowing money from a lender with a promise to pay it back.
- The money you owe is called debt.
- Earning the trust and confidence of banks and other businesses to lend you money is called establishing credit. By showing them you’re trustworthy, you strengthen your ability to borrow again the next time. This is called having a good credit record or a good credit rating.
- When you borrow money, you need to make monthly loan payments and usually have other costs called interest and fees.
The Benefits—and Risk—of Credit (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. Divide the class into small groups. Ask each group to brainstorm the benefits and risks of using credit. When they’re finished, discuss the key points as well as the benefits and risks listed in the chart below.

Instructions:
Have your participants list the benefits and risks of using credit in the boxes.

Key points:
- Having the ability to borrow money when you need it gives you flexibility.
- But borrowing too much money and being unable to pay it back is a serious problem in our country.
- It’s important to use credit responsibly and avoid having too much debt.
- If you understand how credit works and use it wisely, it can help you to reach your goals.

Benefits and Risks of Credit

<table>
<thead>
<tr>
<th>Credit Benefits</th>
<th>Credit Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The option of buying something today and paying the money back over time, rather than having to wait.</td>
<td>• Overdoing it; borrowing more than you can afford to repay.</td>
</tr>
<tr>
<td>• The flexibility to act on major purchases and life opportunities that may require more money than you have on hand right now, like buying a computer, or borrowing for college.</td>
<td>• If you don’t make your payments on time, you’ll damage your credit record.</td>
</tr>
<tr>
<td>• Easier to rent an apartment and to get service from local utility companies.</td>
<td>• Losing money on late fees.</td>
</tr>
<tr>
<td>• Easier to buy what you want, when you want it.</td>
<td>• Having to pay additional interest.</td>
</tr>
<tr>
<td></td>
<td>• Difficulty getting loans or credit in the future.</td>
</tr>
</tbody>
</table>

How much debt can you repay?
- General guideline #1: Never borrow more than 20% of your yearly net income.
- General guideline #2: Keep your credit card debt low enough so that your required payments are no more than 10% of your monthly income.
The Benefits—and Risk—of Credit

Instructions:
List the benefits and risks of using credit in the boxes below.

Benefits and Risks of Credit

<table>
<thead>
<tr>
<th>Credit Benefits</th>
<th>Credit Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Tip!

How much debt can you repay?
- General guideline #1: Never borrow more than 20% of your yearly net income.
- General guideline #2: Keep your credit card debt low enough so that your required payments are no more than 10% of your monthly income.
Good Credit vs. Bad

Instructor note:
Ask the class:
• What does having “good credit” mean?
• What does having “bad credit” mean?

After discussing the answers to those questions, ask the class to supply good and bad credit signs and the result of each.
• Good credit means that you make your payments in full and on time.
• Bad credit is just the opposite.

Signs of Good and Bad Credit

<table>
<thead>
<tr>
<th>Good Credit Signs</th>
<th>Bad Credit Signs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Paying at least the minimum required payment</td>
<td>• Paying too little</td>
</tr>
<tr>
<td>• Paying on time</td>
<td>• Paying too late</td>
</tr>
<tr>
<td>• Never missing a payment</td>
<td>• Missing payments</td>
</tr>
<tr>
<td>• Staying within your credit limit</td>
<td>• Going over your credit limit</td>
</tr>
<tr>
<td></td>
<td>• Having too much debt</td>
</tr>
<tr>
<td>Result</td>
<td>Result</td>
</tr>
<tr>
<td>• Easier to borrow money</td>
<td>• Difficult to borrow money</td>
</tr>
<tr>
<td>• No additional penalty fees</td>
<td>• You lose money on late fees</td>
</tr>
<tr>
<td>• More money you’ll keep in your pocket</td>
<td>• More money spent on finance charges</td>
</tr>
</tbody>
</table>


How to Establish Credit Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the next page. Tell your participants to read each statement and decide whether it is a good way to establish good credit. After they are finished, discuss each statement, then open the floor to discuss other tips and techniques they may have come up with.

**Instructions:**
Have your participants read each statement and decide whether or not it is a good idea for establishing good credit. Have them write “True” or “False” in the left column.

### Establishing Good Credit

<table>
<thead>
<tr>
<th>How to Establish Good Credit</th>
<th>True or False?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avoid getting a credit card until you are a homeowner.</td>
<td>False</td>
</tr>
<tr>
<td>Open a savings account or checking account and manage it well.</td>
<td>True</td>
</tr>
<tr>
<td>Never spend more than you have in the account. This reflects on your ability to repay loans.</td>
<td>True</td>
</tr>
<tr>
<td>Get multiple credit cards at top quality stores and skip making payments on occasion.</td>
<td>False</td>
</tr>
<tr>
<td>Get one or two gasoline or department store credit cards and pay your bill on time, every month.</td>
<td>True</td>
</tr>
<tr>
<td>Only borrow money from family and friends.</td>
<td>False</td>
</tr>
<tr>
<td>Use cash advances from one credit card to pay of balances due on others.</td>
<td>False</td>
</tr>
<tr>
<td>Take out a small loan for an appliance or a computer, and repay it monthly—in full and on time.</td>
<td>True</td>
</tr>
<tr>
<td>Get a secured credit card by opening a savings account with a balance equal to the card’s limit.</td>
<td>True</td>
</tr>
<tr>
<td>Overdraw your checking account for the same amount each month. This demonstrates a consistent need.</td>
<td>False</td>
</tr>
<tr>
<td>Put your apartment and utilities in your own name and always pay your bills on time.</td>
<td>True</td>
</tr>
</tbody>
</table>
How to Establish Credit Activity

Instructions:
Test your knowledge of how to establish credit. Only some of these tips are correct. Read each and decide whether or not it is a good idea for establishing good credit. Write “True” or “False” in the left column.

Establishing Good Credit

<table>
<thead>
<tr>
<th>How to Establish Good Credit</th>
<th>True or False?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avoid getting a credit card until you are a homeowner.</td>
<td></td>
</tr>
<tr>
<td>Open a savings account or checking account and manage it well.</td>
<td></td>
</tr>
<tr>
<td>Never spend more than you have in the account. This reflects on your ability to repay loans.</td>
<td></td>
</tr>
<tr>
<td>Get multiple credit cards at top quality stores and skip making payments on occasion.</td>
<td></td>
</tr>
<tr>
<td>Get one or two gasoline or department store credit cards and pay your bill on time, every month.</td>
<td></td>
</tr>
<tr>
<td>Only borrow money from family and friends.</td>
<td></td>
</tr>
<tr>
<td>Use cash advances from one credit card to pay of balances due on others.</td>
<td></td>
</tr>
<tr>
<td>Take out a small loan for an appliance or a computer, and repay it monthly—in full and on time.</td>
<td></td>
</tr>
<tr>
<td>Get a secured credit card by opening a savings account with a balance equal to the card’s limit.</td>
<td></td>
</tr>
<tr>
<td>Overdraw your checking account for the same amount each month. This demonstrates a consistent need.</td>
<td></td>
</tr>
<tr>
<td>Put your apartment and utilities in your own name and always pay your bills on time.</td>
<td></td>
</tr>
</tbody>
</table>

Have any other ideas about how to establish good credit? Write them down here.

Tip!

Good credit management over time is key to building your credit and determining whether you can obtain credit for large future purchases, such as a car, a home, or college education.
The “Five C's” of Credit Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct your participants to match each of the 5 C's with its correct description. After they are finished, walk through each “C.”

How do lenders decide whether or not to loan you money? The 5 C's of course—character, capacity, capital, collateral and conditions. Some lenders develop their own loan decision “scorecards” using aspects of the 5 C's and other factors.

Instructions:
Have your participants read the descriptions in the right hand column of the table. Then, instruct them to write in the right “C” for each description—character, capacity, capital, collateral or conditions.

“Five C's” of Credit

<table>
<thead>
<tr>
<th>Which “C”?</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Character** | • When lenders evaluate this “C,” they look at stability—for example, how long you’ve lived at your current address, how long you’ve been in your current job, and whether you have a good record of paying your bills on time and in full.  
• If you want a loan for your business, the lender may consider your experience and track record in your business and industry to evaluate how trustworthy you are to repay. |
| **Capacity** | • Your other debts and expenses could impact your ability to repay the loan.  
• Creditors therefore evaluate your debt-to-income ratio, that is, how much you owe compared to how much you earn.  
• The lower your ratio, the more confident creditors will be in your ability to repay the money you borrow. |
| **Capital** | • This term refers to your net worth—the value of your assets minus your liabilities.  
• In simple terms, how much you own (for example, car, real estate, cash, and investments) minus how much you owe. |
| **Collateral** | • This term refers to any asset of a borrower (for example, a home) that a lender has a right to take ownership of and use to pay the debt if the borrower is unable to make the loan payments as agreed.  
• Some lenders may require a guarantee in addition to this.  
• A guarantee means that another person signs a document promising to repay the loan if you can’t. |
| **Conditions** | • Lenders might consider a number of outside circumstances that may affect the borrower’s financial situation and ability to repay, for example what’s happening in the local economy.  
• If the borrower is a business, the lender may evaluate the financial health of the borrower’s industry, their local market, and competition. |
The “Five C’s” of Credit Activity

How do lenders decide whether or not to loan you money? The 5 C’s of course—character, capacity, capital, collateral and conditions. Some lenders develop their own loan decision “scorecards” using aspects of the 5 C’s and other factors.

Instructions:
Read the descriptions in the right hand column of the table. Then, write in the right “C” for each description—character, capacity, capital, collateral or conditions.

<table>
<thead>
<tr>
<th>“Five C’s” of Credit</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which “C”?</td>
<td></td>
</tr>
<tr>
<td>• When lenders evaluate this “C,” they look at stability—for example, how long you’ve lived at your current address, how long you’ve been in your current job, and whether you have a good record of paying your bills on time and in full.</td>
<td>character</td>
</tr>
<tr>
<td>• If you want a loan for your business, the lender may consider your experience and track record in your business and industry to evaluate how trustworthy you are to repay.</td>
<td></td>
</tr>
<tr>
<td>• Your other debts and expenses could impact your ability to repay the loan.</td>
<td>capacity</td>
</tr>
<tr>
<td>• Creditors therefore evaluate your debt-to-income ratio, that is, how much you owe compared to how much you earn.</td>
<td></td>
</tr>
<tr>
<td>• The lower your ratio, the more confident creditors will be in your ability to repay the money you borrow.</td>
<td></td>
</tr>
<tr>
<td>• This term refers to your net worth—the value of your assets minus your liabilities.</td>
<td>capital</td>
</tr>
<tr>
<td>• In simple terms, how much you own (for example, car, real estate, cash, and investments) minus how much you owe.</td>
<td></td>
</tr>
<tr>
<td>• This term refers to any asset of a borrower (for example, a home) that a lender has a right to take ownership of and use to pay the debt if the borrower is unable to make the loan payments as agreed.</td>
<td>collateral</td>
</tr>
<tr>
<td>• Some lenders may require a guarantee in addition to this.</td>
<td></td>
</tr>
<tr>
<td>• A guarantee means that another person signs a document promising to repay the loan if you can’t.</td>
<td></td>
</tr>
<tr>
<td>• Lenders might consider a number of outside circumstances that may affect the borrower’s financial situation and ability to repay, for example what’s happening in the local economy.</td>
<td>conditions</td>
</tr>
<tr>
<td>• If the borrower is a business, the lender may evaluate the financial health of the borrower’s industry, their local market, and competition.</td>
<td></td>
</tr>
</tbody>
</table>
Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the “What is Credit?” lesson:

- Credit is the ability to borrow money.
- There are lots of situations where people borrow money: car loans, credit cards, student loans, etc. In each case, you’re borrowing money from a lender with a promise to pay it back.
- The money you owe is called debt.
- Earning the trust and confidence of banks and other businesses to lend you money is called establishing credit. By showing them you’re trustworthy, you strengthen your ability to borrow again the next time. This is called having a good credit record or a good credit rating.
- When you borrow money, you need to make monthly loan payments and usually have other costs called interest and fees.
Lesson 3: Your Credit Score

This lesson will show participants how their credit score can affect their life and financial options. They will learn how their credit score is determined and what they can do to help improve it.

Learning Objectives
After completing this lesson, participants will be able to:

- Describe how their credit scores can affect their lives and financial options
- Understand how their credit scores are determined
- Use tips and techniques to improve their credit score

Start the Discussion
To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- Do you know what your credit score is?
- How can you check your credit score?
- How do you know if your credit score is excellent, very good, good, or poor?
- Which is better a low credit score or no credit history at all? Why do you think that way?
- Name some ways that you have—or could—improve your credit score.

The Basics

- A credit score is numerical rating used by lenders in the loan approval decision process.
- Lenders always want to know the credit history of people who ask them for credit cards and loans. To find out, they turn to credit bureaus.
- Credit bureaus keep track of everybody's credit history information—things like how many credit cards you have and how much you owe; whether you pay your bills on time; where you work and how long you've worked there.
Your Credit Score Quiz (Instructor Copy)

_Instructor note:_
Photocopy the quiz on the next page. Give your participants five to ten minutes to complete the quiz. When they are finished, give them their Hands on Banking credit score:

1 to 2 correct: 612  
3 to 4 correct: 701  
5 correct: 780

1. Lenders always want to know the ______ of people who ask them for credit cards and loans.
   a. Credit history.  
   b. Employer’s address.  
   c. Social security number.  
   d. Ring size.

2. How do lenders find your credit history?
   a. From bank records.  
   b. From employer records.  
   c. From credit bureaus.  
   d. From the IRS.

3. What are the three largest credit bureaus in the United States?
   1. ______ Equifax ________  
   2. ______ Experian ________  
   3. ______ TransUnion ________

4. In addition to your credit history, almost all lenders look at your:
   a. Credit line.  
   b. Credit cards.  
   c. Credit intentions.  
   d. Credit score.

5. A credit score indicates:
   a. How many credit cards you have.  
   b. **How reliable you are at paying back your debts.**  
   c. How often you are late per month.  
   d. How many times you’ve changed jobs.

**After participants finish the quiz, lead a discussion about credit scores and provide specific information.**
Your Credit Score Quiz

Instructions:
Complete the following quiz. Then, see how well you did and reveal your Credit Score Quiz Score!

1. Lenders always want to know the _______ of people who ask them for credit cards and loans.
   a. Credit history.
   b. Employer’s address.
   c. Social security number.
   d. Ring size.

2. How do lenders find your credit history?
   a. From bank records.
   b. From employer records.
   c. From credit bureaus.
   d. From the IRS.

3. What are the three largest credit bureaus in the United States?
   1. ____________________________
   2. ____________________________
   3. ____________________________

4. In addition to your credit history, almost all lenders look at your:
   a. Credit line.
   b. Credit cards.
   c. Credit intentions.
   d. Credit score.

5. A credit score indicates:
   a. How many credit cards you have.
   b. How reliable you are at paying back your debts.
   c. How often you are late per month.
   d. How many times you’ve changed jobs.
Your Credit Score

**Instructor note:**
*After the quiz, discuss these key points with your participants.*

**Credit history**
- Lenders always want to know the credit history of people who ask them for credit cards and loans. To find out, they turn to credit bureaus.
- The three largest credit bureaus in the United States are:
  - Equifax
  - Experian
  - TransUnion
- Credit bureaus keep track of everybody’s credit history information—things like how many credit cards you have and how much you owe; whether you pay your bills on time; where you work and how long you’ve worked there.

**Credit score**
- In addition to your credit history, almost all lenders look at your credit score.
- This is a number that indicates how reliable you are at paying back your debts.
- A computer program analyzes your entire credit history and generates a single number or score, usually ranging from 300 to 850.
- This score helps lenders decide if you’re a good credit risk or not. The higher the score, the lower the risk.
- The higher your credit score, the better the interest rate lenders are likely to offer you—which could mean more money in your pocket!
Credit Score Impact (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the next page. Instruct your participants to read each factor and decide whether or not it can affect their credit score. When they finish, discuss each statement and discuss other factors your participants may have come up with.

**Instructions**
Have participants read through all the factors that can affect their credit score. Have them decide which factors can and cannot affect your credit score. Instruct them to place a check mark next to the factors that CAN affect their credit score.

**Factor in Determining Your Credit Score?**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Yes or No?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your ability to get a credit card</td>
<td>✓</td>
</tr>
<tr>
<td>Your ability to purchase a home</td>
<td>✓</td>
</tr>
<tr>
<td>Your interest rate on your savings account</td>
<td></td>
</tr>
<tr>
<td>Whether a landlord will rent you an apartment</td>
<td>✓</td>
</tr>
<tr>
<td>Whether you’ll be charged a fee if you pay your bills late</td>
<td></td>
</tr>
<tr>
<td>The interest rate lenders are likely to offer you</td>
<td>✓</td>
</tr>
<tr>
<td>The amount of your insurance premiums</td>
<td>✓</td>
</tr>
<tr>
<td>Whether you’re allowed to participate in a company retirement plan</td>
<td></td>
</tr>
<tr>
<td>Your ability to borrow money</td>
<td>✓</td>
</tr>
<tr>
<td>Whether you can get service from utility companies</td>
<td>✓</td>
</tr>
</tbody>
</table>
## Topic 4 — Using Credit To Your Advantage

### Credit Score Impact

**Instructions:**
Read through all the factors that can affect your credit score. Decide which factors can and cannot affect your credit score. Place a check mark next to the factors that CAN affect your credit score.

### Factor in Determining Your Credit Score?

<table>
<thead>
<tr>
<th>Factors</th>
<th>Yes or No?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your ability to get a credit card</td>
<td></td>
</tr>
<tr>
<td>Your ability to purchase a home</td>
<td></td>
</tr>
<tr>
<td>Your interest rate on your savings account</td>
<td></td>
</tr>
<tr>
<td>Whether a landlord will rent you an apartment</td>
<td></td>
</tr>
<tr>
<td>Whether you’ll be charged a fee if you pay your bills late</td>
<td></td>
</tr>
<tr>
<td>The interest rate lenders are likely to offer you</td>
<td></td>
</tr>
<tr>
<td>The amount of your insurance premiums</td>
<td></td>
</tr>
<tr>
<td>Whether you’re allowed to participate in a company retirement plan</td>
<td></td>
</tr>
<tr>
<td>Your ability to borrow money</td>
<td></td>
</tr>
<tr>
<td>Whether you can get service from utility companies</td>
<td></td>
</tr>
</tbody>
</table>
**Improve Your Credit Score Activity (Instructor Copy)**

**Instructor note:**
Photocopy the activity handout on the next page. Instruct your participants to read each action and decide whether it will improve or lower their credit score. When they finish, discuss each statement.

**Instructions:**
Have participants read each action and decide whether it improves or lowers their credit score. Instruct them to write “Improve” or “Lower” in the right hand column.

### How Do Your Actions Affect Your Credit Score?

<table>
<thead>
<tr>
<th>Your Actions</th>
<th>Improve or Lower Your Score?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have a very brief credit history</td>
<td>Lower</td>
</tr>
<tr>
<td>Consistently pay your bills on time</td>
<td>Improve</td>
</tr>
<tr>
<td>Keep credit cards balances that are 70% or less of your spending limit</td>
<td>Improve</td>
</tr>
<tr>
<td>Apply for new credit cards frequently, whether you need them or not</td>
<td>Lower</td>
</tr>
<tr>
<td>Only apply for and open new credit accounts when you need them</td>
<td>Improve</td>
</tr>
<tr>
<td>Have high income relative to how much you owe</td>
<td>Improve</td>
</tr>
<tr>
<td>Exceed your credit card spending limit</td>
<td>Lower</td>
</tr>
<tr>
<td>Pay some bills late</td>
<td>Lower</td>
</tr>
<tr>
<td>Have a good credit history for a long period of time</td>
<td>Improve</td>
</tr>
<tr>
<td>Have a mix of revolving credit (e.g., credit cards) and installment credit (e.g., a car loan)</td>
<td>Improve</td>
</tr>
<tr>
<td>Have credit cards balances near your maximum spending limit</td>
<td>Lower</td>
</tr>
</tbody>
</table>

**Tip!**
If you never use credit cards, you’re not establishing a credit history. To improve your scores, it’s actually better to use credit cards in moderation, keep your balances low, and pay on time.
**Improve Your Credit Score Activity**

Different formulas are used to calculate credit scores, but some of the actions on this list will improve your score and some will lower it.

**Instructions:**
Read each action and decide whether it improves or lowers your credit score. Write “Improve” or “Lower” in the right hand column.

**How Do Your Actions Affect Your Credit Score?**

<table>
<thead>
<tr>
<th>Your Actions</th>
<th>Improve or Lower Your Score?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have a very brief credit history</td>
<td></td>
</tr>
<tr>
<td>Consistently pay your bills on time</td>
<td></td>
</tr>
<tr>
<td>Keep credit cards balances that are 70% or less of your spending limit</td>
<td></td>
</tr>
<tr>
<td>Apply for new credit cards frequently, whether you need them or not</td>
<td></td>
</tr>
<tr>
<td>Only apply for and open new credit accounts when you need them</td>
<td></td>
</tr>
<tr>
<td>Have high income relative to how much you owe</td>
<td></td>
</tr>
<tr>
<td>Exceed your credit card spending limit</td>
<td></td>
</tr>
<tr>
<td>Pay some bills late</td>
<td></td>
</tr>
<tr>
<td>Have a good credit history for a long period of time</td>
<td></td>
</tr>
<tr>
<td>Have a mix of revolving credit (e.g., credit cards) and installment credit (e.g., a car loan)</td>
<td></td>
</tr>
<tr>
<td>Have credit cards balances near your maximum spending limit</td>
<td></td>
</tr>
</tbody>
</table>

**Tip!**

If you never use credit cards, you’re not establishing a credit history. To improve your scores, it’s actually better to use credit cards in moderation, keep your balances low, and pay on time.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: About Credit Scores

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Your Credit Score lesson:

- A credit score is a numerical rating used by lenders in the loan approval decision process.

- Lenders almost always want to know the credit history of people who ask them for credit cards and loans. To find out, they turn to credit bureaus.

- Credit bureaus keep track of everybody’s credit history information—things like how many credit cards you have and how much you owe; whether you pay your bills on time; where you work and how long you’ve worked there.
Lesson 4: Your Credit Report

In this lesson, participants will learn that a credit report is a document that describes their history of borrowing money and repaying what they owe. They will learn how to obtain a credit report, how to read it, and how to correct it if there is a mistake.

Learning Objectives
After completing this lesson, participants will be able to:

• Obtain their credit reports
• Read their credit reports
• Correct their credit reports if there is a mistake
• Describe who else might have access to their credit reports and why

Start the Discussion
To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

• When is the last time you looked at your credit report? Describe how you obtained it. Any surprises?
• Why should you check your credit report?
• Why would an employer or a landlord check your credit report?
• How many times a year should you check your credit report?

The Basics

• Your credit report is the complete written version of your credit history.
• You can review your own credit report and you give others permission to look at it when you apply for a loan or fill out a credit card application.
• Employers can also check your credit report.
• Review your credit report at least once a year to check for errors or fraud.
• If you need assistance, consider contacting a credit counselor—an experienced credit professional.
How to Obtain Your Credit Report Discussion

**Instructor note:**
Use the questions below to facilitate a group discussion about obtaining the credit reports. Use the information below each question to guide the discussion.

**Where can I get my credit report?**
The three largest credit bureaus in the United States are Equifax, Experian, and TransUnion.

**How often can I receive a copy of my credit report?**
A federal law called the Fair Credit Reporting Act allows you to receive one free copy of your credit report from each of these three companies once a year.

**Can I request my credit report online?**
To get a free report online, go to [www.annualcreditreport.com](http://www.annualcreditreport.com) and follow the directions. This is the web site that provides your free annual report. It is run jointly by Equifax, Experian, and TransUnion.

**What about all these Web sites advertising free credit reports?**
Be wary of the many Web sites that advertise free credit reports! Many consumers get tricked into paying for reports and services they don't really need.

**What should I look for when I receive my credit report?**
When you receive your report, check for mistakes in your name, social security number, former addresses, accounts you didn't open, and errors in your history.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Your Credit Report

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
How to Read Your Credit Report

*Instructor note:* Photocopy the activity handout on the next page. Discuss each section of the credit report.

This is a sample credit report.

**Sample Credit Report**

Credit Reporting Agency
PO Box 1234
City, State Zip
(800) 777-1234

**Personal Sample Credit File**

**Personal Identification Information**
Your name: 
Social Security #: 000-00-0000
Current address: 
Date of Birth: March 15, 1972
City State Zip

**Previous address(es)**
1234 Oak St., Anytown CA 92111
4567 Grand Ave., Hometown, IL 65432

**Last Reported Employment:** Truck Driver

**Public Record Information**
Bankruptcy filed 3/2004: Any District Court: Case or other ID number-000AB0000;
Liabilities $21,765: Personal; Individual; Discharged; Assets $995

**Collection Agency Account Information**
Any Collection Agency 09/04; Assigned 11/04 to Any Collection Agency; Client-
Top Department Store; Amount - $678; Paid collection account

**Credit Account Information**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Account Number</th>
<th>Other Number</th>
<th>Other Number</th>
<th>Other Number</th>
<th>Other Number</th>
<th>Other Number</th>
<th>Other Number</th>
<th>Other Number</th>
<th>Other Number</th>
<th>Other Number</th>
<th>Other Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Card Company</td>
<td>00076</td>
<td>1</td>
<td>05/01</td>
<td>05/01</td>
<td>7500</td>
<td>50</td>
<td>R1</td>
<td>02/17/04 Credit Card Company</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department Store</td>
<td>000452</td>
<td>2</td>
<td>08/01</td>
<td>08/01</td>
<td>5700</td>
<td>50</td>
<td>D3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Companies that Requested Your Credit Report**

06/12/01 Department Store
02/17/04 Credit Card Company

**Section A** shows information about you—your name, current and previous address, Social Security number, date of birth, and other information to identify you.

**Section B** is called Public Record Information. In this area, you’ll see any information that is listed about you in the records of local, state, or federal courts. In this example you see a bankruptcy.

**Section C** shows collection agency account information. If you fail to pay back one of your creditors, they may hire a collection agency to contact you. This is a company that specializes in collecting money to pay off debts.

**Section D** shows your credit history. This is a list of all the places where you have credit—or used to have credit. These are called your accounts. The credit history section is divided into twelve columns.

**Section E**, the last section of the credit report, is called Inquiries. This is a list of the companies that have requested a copy of your credit report for their review.
How to Read Your Credit Report

This is a sample credit report.

**Sample Credit Report**

**Personal Sample Credit File**

Personal Identification Information
- Your name
- Social Security #: 000-00-0000
- Current address
- Date of Birth: March 15, 1972
- City State Zip

Previous address(es)
- 1234 Oak St, Anytown CA 92111
- 4567 Grand Ave., Hometown, IL 65432

Last Reported Employment: Truck Driver

Public Record Information
- Bankruptcy filed 3/2004: Any District Court: Case or other ID number: 000AB0000;
- Liabilities $21,765; Personal; Individual; Discharged; Assets $995

Collection Agency Account Information
- Any Collection Agency 09/04; Assigned 11/04 to Any Collection Agency; Client:
- Top Department Store; Amount: $678; Paid collection account

Credit Account Information

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Account Number</th>
<th>Amount Due</th>
<th>Date of Last Acct</th>
<th>Days Over</th>
<th>Date of Last Payment</th>
<th>Dis. Credit</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car Dealership</td>
<td>4523029</td>
<td>500.00</td>
<td>08/30/2020</td>
<td>0 days</td>
<td>08/30/2020</td>
<td>700.00</td>
<td>Paid</td>
</tr>
<tr>
<td>Credit Card Company</td>
<td>00076</td>
<td>3000.00</td>
<td>07/15/2021</td>
<td>0 days</td>
<td>07/15/2021</td>
<td>3000.00</td>
<td>Paid</td>
</tr>
<tr>
<td>Department Store</td>
<td>000432</td>
<td>100.00</td>
<td>10/15/2021</td>
<td>0 days</td>
<td>10/15/2021</td>
<td>100.00</td>
<td>Paid</td>
</tr>
</tbody>
</table>

Inquiries

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Date Requested</th>
<th>Date Received</th>
<th>Days Requested</th>
<th>Days Requested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Card Company</td>
<td>06/12/01</td>
<td>06/12/01</td>
<td>0 days</td>
<td>0 days</td>
</tr>
<tr>
<td>Department Store</td>
<td>02/17/04</td>
<td>02/17/04</td>
<td>0 days</td>
<td>0 days</td>
</tr>
</tbody>
</table>

Previous Payment History: 2 times 30 days late; 3 times 60 days late

**Section A** shows information about you—your name, current and previous address, Social Security number, date of birth, and other information to identify you.

**Section B** is called Public Record Information. In this area, you’ll see any information that is listed about you in the records of local, state, or federal courts. In this example you see a bankruptcy.

**Section C** shows collection agency account information. If you fail to pay back one of your creditors, they may hire a collection agency to contact you. This is a company that specializes in collecting money to pay off debts.

**Section D** shows your credit history. This is a list of all the places where you have credit—or used to have credit. These are called your accounts. The credit history section is divided into twelve columns.

**Section E**, the last section of the credit report, is called Inquiries. This is a list of the companies that have requested a copy of your credit report for their review.
Details of Your History

The credit history section of the credit report is divided into twelve columns.

### Reading Your Credit History

<table>
<thead>
<tr>
<th>Column Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The names of your lenders</td>
</tr>
<tr>
<td>2</td>
<td>Your account numbers.</td>
</tr>
<tr>
<td>3</td>
<td>Person responsible for payment. An “I” means an individual is responsible. A “J” means joint responsibility—you and another person.</td>
</tr>
<tr>
<td>4</td>
<td>Month and year the account was opened.</td>
</tr>
<tr>
<td>5</td>
<td>Number of months the payment history for the account has been reported.</td>
</tr>
<tr>
<td>6</td>
<td>Date that the last payment, change, or other activity was made.</td>
</tr>
<tr>
<td>7</td>
<td>The highest amount that has been charged to this account, or the credit limit.</td>
</tr>
<tr>
<td>8</td>
<td>The amount of your monthly payments— if this is an installment loan.</td>
</tr>
<tr>
<td>9</td>
<td>The amount you still owe as of the date of the report.</td>
</tr>
<tr>
<td>10</td>
<td>Any amount that is past due (money that you’re late in paying to your lender).</td>
</tr>
<tr>
<td>11</td>
<td>The Status column contains a letter and a number. The letter describes what kind of account it is. “I” means installment (loan payment every month for a certain period). “R” means revolving credit (credit card). “O” means open (the lender decides to give you credit and then bills you for what you borrow).</td>
</tr>
<tr>
<td>12</td>
<td>Column 12 shows the date on which the information for this account was last updated.</td>
</tr>
</tbody>
</table>

### What do the numbers in Column 11 mean?

- 1 = account paid as agreed
- 2 = account 30 or more days past due
- 3 = account 60 or more days past due
- 4 = account 90 or more days past due

**Tip!**
### Details of Your History

The credit history section of the credit report is divided into twelve columns.

<table>
<thead>
<tr>
<th>Column Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The names of your lenders</td>
</tr>
<tr>
<td>2</td>
<td>Your account numbers.</td>
</tr>
<tr>
<td>3</td>
<td>Person responsible for payment. An &quot;I&quot; means an individual is responsible. A &quot;J&quot; means joint responsibility—you and another person.</td>
</tr>
<tr>
<td>4</td>
<td>Month and year the account was opened.</td>
</tr>
<tr>
<td>5</td>
<td>Number of months the payment history for the account has been reported.</td>
</tr>
<tr>
<td>6</td>
<td>Date that the last payment, change, or other activity was made.</td>
</tr>
<tr>
<td>7</td>
<td>The highest amount that has been charged to this account, or the credit limit.</td>
</tr>
<tr>
<td>8</td>
<td>The amount of your monthly payments— if this is an installment loan.</td>
</tr>
<tr>
<td>9</td>
<td>The amount you still owe as of the date of the report.</td>
</tr>
<tr>
<td>10</td>
<td>Any amount that is past due (money that you’re late in paying to your lender).</td>
</tr>
<tr>
<td>11</td>
<td>The Status column contains a letter and a number. The letter describes what kind of account it is. &quot;I&quot; means installment (loan payment every month for a certain period). &quot;R&quot; means revolving credit (credit card). &quot;O&quot; means open (the lender decides to give you credit and then bills you for what you borrow).</td>
</tr>
<tr>
<td>12</td>
<td>Column 12 shows the date on which the information for this account was last updated.</td>
</tr>
</tbody>
</table>

### What do the numbers in Column 11 mean?

1 = account paid as agreed  
2 = account 30 or more days past due  
3 = account 60 or more days past due  
4 = account 90 or more days past due
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Your Credit Report

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Scenario: Finding an Error (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. Ask participants to choose the best possible option, and then, for each option, instruct them to write a few sentences about why it was right or wrong for the situation. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:
Have participants read Rafael’s story. Have them choose the best possible option. Then, for each option, have them write a few sentences about why the option was right or wrong for Rafael’s situation.

Rafael’s Story
Two months from now, Rafael plans to move out of his brother’s house and rent an apartment of his own. He realizes that any potential landlord will probably review a copy of his credit report. So Rafael requests a free copy to review himself. As he studies the report, he sees that it contains a major error. It says that he’s 120 days late in paying $1,275 to a national chain clothing store… where he’s never shopped!

1. Don’t worry about it. The credit bureau will fix it. Meanwhile, he can explain it.
   Consequences: Rafael thought the credit bureau would fix this on their own, but they didn’t. He should have taken more responsibility because now the landlord thinks he can’t pay his bills.
   Feedback: It was a good idea for Rafael to request the credit report, and it was smart to review it carefully. But when he found an error, he needed to take personal responsibility for getting the mistake corrected by contacting the credit bureau and the creditor right away.

2. Contact the manager of the local clothing store. Ask for a letter to show potential landlords.
   Consequences: It took Rafael two weeks to track down the local store manager in-person. Although she agreed she’d never seen Rafael shop there, a letter from her won’t solve anything. Rafael could have saved time by just calling the credit bureau first.
   Feedback: Sorry, this wasn’t the best advice. It was great for Rafael to take personal responsibility for correcting the error, but the best choice when you discover a mistake is to contact the credit bureau and the creditor in question. Consequently, Rafael has to track down the local store manager who said a letter from her would mean nothing. So he should just contact the credit bureau immediately.

3. Contact the credit bureau immediately! Call the billing department of the clothing company.
   Consequences: Rafael called the credit bureau and filled out the dispute form on their site. He called the national customer service number for the store and it turned out they had his account confused with someone else by the same name. Everything is straightened out now.
   Feedback: Great decision! Rafael took personal responsibility for correcting the error and took action right away. He solved the problem and protected his good credit history. As we explained earlier, having good credit is very helpful in many ways. If you need assistance, consider contacting a credit counselor—an experienced credit professional.
Scenario: Finding an Error

Instructions:
Read Rafael's story. Based on his situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Rafael's situation.

Rafael's Story
Two months from now, Rafael plans to move out of his brother's house and rent an apartment of his own. He realizes that any potential landlord will probably review a copy of his credit report. So Rafael requests a free copy to review himself. As he studies the report, he sees that it contains a major error. It says that he's 120 days late in paying $1,275 to a national chain clothing store … where he's never shopped!

What should Rafael do?

1. Don't worry about it. The credit bureau will fix it. Meanwhile, he can explain it.
   Should he choose this option? Why or why not?

2. Contact the manager of the local clothing store. Ask for a letter to show potential landlords.
   Should he choose this option? Why or why not?

3. Contact the credit bureau immediately! Call the billing department of the clothing company.
   Should he choose this option? Why or why not?
Topic 4 — Using Credit To Your Advantage

Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Your Credit Report lesson:

• Your credit report is the complete written version of your credit history.
• You can review your own credit report and you give others permission to look at it when you apply for a loan or fill out a credit card application.
• Employers can also check your credit report.
• Review your credit report at least once a year to check for errors or fraud.
• If you need assistance, consider contacting a credit counselor—an experienced credit professional.
Lesson 5: Credit Cards

In this lesson, participants will learn valuable tips for using credit cards the smart, safe and responsible way. They will learn how to avoid too much credit card debt and learn steps to take if debt is already a problem.

Learning Objectives
After completing this lesson, participants will be able to:

• Explain valuable tips for using credit cards the smart, safe and responsible way
• Understand that using a credit card is actually borrowing money, in essence taking out a loan
• Comparison shop for the credit card that is best for them
• Take steps to improve their credit if debt is already a concern

Start the Discussion
To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

• How many credit cards do you own? Do you think it’s too many or would you like more?
• What kinds of things do you purchase with a credit card?
• What was your first credit card and why did you get it? Did you understand the concept of interest at that point?
• Do you pay the minimum payment amount or more towards your credit card balance each month? What is the consequence for minimum payment?
• When was the last time you actually read your credit card statement?

The Basics

• Lots of financial institutions offer credit cards and some will charge you an annual fee to have one.
• When you apply for a card, they’ll check your credit history and decide whether or not to give you a card.
• They’ll also decide how much you’re allowed to borrow, or “charge.” This is called your credit limit.
• If the credit card company issues you a card, they’ll let you know what your credit limit will be.
• Credit cards are called revolving credit because as you pay the money back, your credit becomes available for you to use again and again.
• Be sure to shop around for the best credit card offer that fits your need and with the lowest APR.
The Basics of Credit Cards

**Instructor note:**
Lead a group discussion about the credit cards. Discuss how credit cards are different than cash, debit or check cards. Mention these key points.

- Credit cards can be more convenient than carrying cash, but remember, you always have to pay the money back.
- Every time you use your credit card, you’re actually borrowing money from the financial institution that issued you the card.
- The financial institution pays the debt to the store for what you bought. In turn, you pay the money back to the financial institution.
- Credit cards are called revolving credit because as you pay the money back, your credit becomes available for you to use again and again.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: About Credit Cards

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
## Choosing the Right Card For You (Instructor Copy)

### Instructor note:

Photocopy the activity handout on the next page. Instruct your participants to fill in the blank. When they are finished, use the example below to help illustrate the concept.

### Instructions:

Have your participants fill in the blanks using the words from the word bank.

### Word Bank:

<table>
<thead>
<tr>
<th>$10,000</th>
<th>Lower</th>
</tr>
</thead>
<tbody>
<tr>
<td>A ton</td>
<td>Mid-level interest rate</td>
</tr>
<tr>
<td>All at once</td>
<td>No</td>
</tr>
<tr>
<td>Bill</td>
<td>Over time</td>
</tr>
<tr>
<td>Credit limit</td>
<td>Quickly</td>
</tr>
<tr>
<td>Higher</td>
<td>Remaining credit line</td>
</tr>
<tr>
<td>Letter</td>
<td>Slowly</td>
</tr>
<tr>
<td>Low interest rate</td>
<td>Unpaid balance</td>
</tr>
</tbody>
</table>

1. It definitely pays to get a credit card with a _______ low interest rate_______, and to pay off your bill as quickly as you can.

2. Each month, the credit card company will send you a _______ bill_______, or statement, showing the amount you have borrowed.

3. If you pay off purchases by paying your first credit card statement in full, you’ll pay no interest, plus you’ll have your full _______ credit limit_______ available to use again.

4. If you decide to repay _______ over time_______, you’ll be charged interest on the _______ unpaid balance_______ each month (the amount you still owe).

5. With interest, the total amount you end up spending on things may be quite a bit _______ higher_____!
Choosing the Right Card For You

Instructions:
Fill in the blanks using the words from the word bank.

Word Bank:

$10,000  Lower
A ton  Mid-level interest rate
All at once  No
Bill  Over time
Credit limit  Quickly
Higher  Remaining credit line
Letter  Slowly
Low interest rate  Unpaid balance

1. It definitely pays to get a credit card with a ______________________, and to pay off your bill as quickly as you can.

2. Each month, the credit card company will send you a ________________, or statement, showing the amount you have borrowed.

3. If you pay off purchases by paying your first credit card statement in full, you’ll pay no interest, plus you’ll have your full ______________________ available to use again.

4. If you decide to repay ______________________, you’ll be charged interest on the ______________________ each month (the amount you still owe).

5. With interest, the total amount you end up spending on things may be quite a bit ______________________!
Save Money on Interest Activity (Instructor Copy)

**Instructor note:**
Use this example to highlight the importance of interest and repayment time. Photocopy the activity handout on the following page and instruct participants to fill in the chart as you walk through the example. Please note this content varies slightly from the online Hands on Banking program.

**Instructions:**
Have your participants fill in the chart as you walk through the example.

**Example:**
Sally bought a television for $500 with her credit card. Her credit card has 8% interest. She paid it off within six months. Bob bought the same television for $500 with his credit card. His credit card has 18% interest. He paid it off within 24 months.

Who do you think paid more in the long run? Why?

Bob ended up paying $99 in interest, while Sally only paid $10.

**How Bob and Sally Paid**

<table>
<thead>
<tr>
<th>Description</th>
<th>Bob</th>
<th>Sally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of product</td>
<td>$500</td>
<td>$500</td>
</tr>
<tr>
<td>Interest rate for card</td>
<td>18%</td>
<td>8%</td>
</tr>
<tr>
<td>Time to pay off</td>
<td>24 months</td>
<td>6 months</td>
</tr>
<tr>
<td>Total interest (APR)</td>
<td>$99.09</td>
<td>$10.25</td>
</tr>
<tr>
<td>Total price</td>
<td>599.09</td>
<td>510.25</td>
</tr>
</tbody>
</table>

When comparing credit cards, look at the Annual Percentage Rate (APR). APR is a measurement that takes into account a loan's interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost of borrowing.
Save Money on Interest Activity

Instructions:
Listen to the example and fill in the chart as your instructor reveals the information.

How Bob and Sally Paid

<table>
<thead>
<tr>
<th>Description</th>
<th>Bob</th>
<th>Sally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of product</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate for card</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Time to pay off</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total interest (APR)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total price</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Who do you think paid more in the long run? Why?

Write down other notes and questions:

Tip!
When comparing credit cards, look at the Annual Percentage Rate (APR). APR is a measurement that takes into account a loan's interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost of borrowing.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Credit Card or Debit Card: Which to Use?

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Topic 4 — Using Credit To Your Advantage

Use Credit Cards Responsibly Quiz (Instructor Copy)

Instructor note:
Photocopy the activity handout on the following page. Instruct participants to answer the quiz questions, then lead a discussion.

Instructions:
Have your participants answer these quiz questions.

1. In general, people spend more when they use credit cards instead of cash.
   a. True
   b. False

2. Try to keep your credit card debt low enough so that your required payments are no more than what percentage of your monthly income?
   a. 40%
   b. 30%
   c. 20%
   d. 10%

3. Use cash or your debit card for everyday purchases and save your credit card for buying:
   a. Things you buy monthly, such as groceries
   b. Gasoline
   c. Larger, more lasting items
   d. All of the above

4. Unlike a debit card, where the money comes right out of your account, you’re _____________ money when you use a credit card.
   a. Repaying
   b. Loaning
   c. Borrowing
   d. Saving

5. Consider having just _____________ card with a low spending limit.
   a. Four
   b. Three
   c. Two
   d. One
Use Credit Cards Responsibly Quiz

Instructions:
Read each question and select the best possible answer.

1. In general, people spend more when they use credit cards instead of cash.
   a. True
   b. False

2. Try to keep your credit card debt low enough so that your required payments are no more than what percentage of your monthly income?
   a. 40%
   b. 30%
   c. 20%
   d. 10%

3. Use cash or your debit card for everyday purchases and save your credit card for buying:
   a. Things you buy monthly, such as groceries
   b. Gasoline
   c. Larger, more lasting items
   d. All of the above

4. Unlike a debit card, where the money comes right out of your account, you’re _____________ money when you use a credit card.
   a. Repaying
   b. Loaning
   c. Borrowing
   d. Saving

5. Consider having just _____________ card with a low spending limit.
   a. Four
   b. Three
   c. Two
   d. One
**How to Use Credit Cards Responsibly (Instructor Copy)**

**Instructor note:**
Photocopy the activity handout on the next page. Explain to your participants that you will be leading a discussion or discussion about using credit cards responsibly. Ask them to follow along with their activity handout and write in the correct word or phrase in the blanks.

**Instructions:**
Have your participants fill in the blanks as they listen to the discussion.

### Using Credit Cards Responsibly

<table>
<thead>
<tr>
<th>Use for low-fee, low-interest</th>
<th>• Get a credit card with a low ______ annual fee ______ and low ______ interest rate ______.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Be sure to read your cardholder agreement. It spells out all the ______ fees ______ and ______ finance charges ______.</td>
</tr>
<tr>
<td></td>
<td>• Call your card company’s customer service number if you have questions.</td>
</tr>
<tr>
<td>Pay off as much as you can</td>
<td>• Always make at least the ______ minimum payment ______ each month, but pay as much as you can each month.</td>
</tr>
<tr>
<td></td>
<td>• Pay off the ______ entire balance ______ whenever you can. This will reduce the finance charges you pay.</td>
</tr>
<tr>
<td>Be sure you can afford it</td>
<td>• Don’t use your credit cards to buy things you really can’t ______ afford ______.</td>
</tr>
<tr>
<td></td>
<td>• Follow your ______ budget ______.</td>
</tr>
<tr>
<td>Keep within your limit</td>
<td>• If you go over your limit, you could damage your ______ credit rating ______.</td>
</tr>
<tr>
<td></td>
<td>• Track your credit card charges throughout the month and stay within your credit limit.</td>
</tr>
<tr>
<td></td>
<td>• To build credit and still be prepared for emergencies, try to keep your balance below ______ 70% ______ of your limit at all times.</td>
</tr>
<tr>
<td>Pay on time</td>
<td>• Pay your credit card bills on time. This is one of the best ways to build good credit because it shows lenders that you’re ______ reliable ______. It also helps you avoid late fees.</td>
</tr>
<tr>
<td>Avoid cash advances</td>
<td>• Some credit card companies may offer you a ______ cash advance ______.</td>
</tr>
<tr>
<td></td>
<td>• Avoid this option except in emergencies. You’ll be charged a fee and the interest rate is usually much ______ higher ______!</td>
</tr>
<tr>
<td>Get debt help early</td>
<td>• If you’re getting into trouble with debt, get help early. Consider talking with a credit counselor, an experienced professional, who can help you get out of debt.</td>
</tr>
</tbody>
</table>
How to Use Credit Cards Responsibly

Instructions:
As you listen to the instructor lead this discussion, fill in the blanks.

Using Credit Cards Responsibly

| Look for low-fee, low-interest | • Get a credit card with a low ________________ and low ________________.  
|                               | • Be sure to read your cardholder agreement. It spells out all the ________________ and ________________.  
|                               | • Call your card company’s customer service number if you have questions.  |
| Pay off as much as you can    | • Always make at least the ________________ each month, but pay as much as you can each month.  
|                               | • Pay off the ________________ whenever you can. This will reduce the finance charges you pay.  |
| Be sure you can afford it     | • Don’t use your credit cards to buy things you really can’t ________________.  
|                               | • Follow your ________________.  |
| Keep within your limit        | • If you go over your limit, you could damage your ________________.  
|                               | • Track your credit card charges throughout the month and stay within your credit limit.  
|                               | • To build credit and still be prepared for emergencies, try to keep your balance below ________________ of your limit at all times.  |
| Pay on time                   | • Pay your credit card bills on time. This is one of the best ways to build good credit because it shows lenders that you’re ________________. It also helps you avoid late fees.  |
| Avoid cash advances           | • Some credit card companies may offer you a ________________.  
|                               | • Avoid this option except in emergencies. You’ll be charged a fee and the interest rate is usually much ________________!  |
| Get debt help early          | • If you’re getting into trouble with debt, get help early. Consider talking with a credit counselor, an experienced professional, who can help you get out of debt.  |
**How to Read Your Credit Card Statement (Instructor Copy)**

**Instructor note:**
Photocopy the activity handout on the following page. Lead a discussion about how to read a credit card statement.

Credit card statement formats vary, but take a look at this sample.

### CARD Statement

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Statement Closing Date</th>
<th>Credit Line</th>
<th>Available Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1234 1234 1234 1234</td>
<td>11/06/09</td>
<td>$2,100.00</td>
<td>$1,576.80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Account Summary</th>
<th>Payment Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Balance</td>
<td>New Balance</td>
</tr>
<tr>
<td>- Credits</td>
<td>$0.00</td>
</tr>
<tr>
<td>- Payments</td>
<td>$1,888.15</td>
</tr>
<tr>
<td>+ Purchases &amp; Other Chgs</td>
<td>Scheduled Minimum Payment $35.00</td>
</tr>
<tr>
<td>+ Cash Advances</td>
<td>Scheduled Payment Due Date 12/01/09</td>
</tr>
<tr>
<td>+ FINANCE CHARGE</td>
<td></td>
</tr>
<tr>
<td>= New Balance</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Statement Closing Date</th>
<th>Credit Line</th>
<th>Available Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>TERESA TORRES</td>
<td>123 ANY STREET</td>
<td>CITY CA 12345</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rate Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corresponding ANNUAL PERCENTAGE RATE</td>
</tr>
<tr>
<td>Daily FINANCE CHARGE RATE</td>
</tr>
<tr>
<td>Average Daily Balance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Balance</th>
<th>Corresponding ANNUAL PERCENTAGE RATE</th>
<th>Daily FINANCE CHARGE RATE</th>
<th>Average Daily Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>PURCHASE(S)</td>
<td>19.80%</td>
<td>.05424%</td>
<td>$0.00</td>
</tr>
<tr>
<td>CASH ADVANCE(S)</td>
<td>21.80%</td>
<td>.05972%</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

| Composite ANNUAL PERCENTAGE RATE 21.80% | Days in Billing Cycle 25 |

<table>
<thead>
<tr>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trans Post</td>
</tr>
<tr>
<td>10/09</td>
</tr>
<tr>
<td>10/08</td>
</tr>
</tbody>
</table>

Detach an mail with check so that your payment is received no later than the “Payment Due” date. See reverse for important additional information.

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Statement Closing Date</th>
<th>Credit Line</th>
<th>Available Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1234 1234 1234 1234</td>
<td>12/01/09</td>
<td>$523.20</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount Enclosed</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
</tr>
</tbody>
</table>

**PAYMENT ADDRESS**
233 ANY STREET
LOS ANGELES, CA 90030-0088

**TERESA TORRES**
123 ANY STREET
CITY, CA 123456
### How to Read Your Credit Card Statement (Instructor Copy) (continued)

#### Reading Your Credit Statement

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td>Credit card account number—keep it a secret, or others can use your account.</td>
</tr>
<tr>
<td>B.</td>
<td>Closing date of the statement—the date the credit card company created this statement.</td>
</tr>
<tr>
<td>C.</td>
<td>Amount of your credit line—your spending limit.</td>
</tr>
<tr>
<td>D.</td>
<td>Available credit—amount of credit that you haven’t borrowed yet, so it’s still available to you.</td>
</tr>
<tr>
<td>E.</td>
<td>Transactions section—shows a list of each charge and payment you made in date order.</td>
</tr>
<tr>
<td>F.</td>
<td>Your transactions are summarized here, in the Account Summary section. You’ll also see totals for fees and interest charged for this month.</td>
</tr>
<tr>
<td>G.</td>
<td>Payment Information—shows total amount you now owe, called your New Balance.</td>
</tr>
</tbody>
</table>
| H. | • Minimum Payment—each month, you must pay at least this portion of what you owe. You may pay more, up to the total amount. If you want to have good credit, and reduce the amount of interest you’ll pay, it’s a good idea to pay more than the minimum payment each month.  
|    | • Your statement shows how long it will take to pay off your balance if you make only the minimum payment due each month.  
|    | • Contact information for credit counseling services is provided.                         |
| I. | • Due Date—the date the credit card company must receive your payment by. Or, they will begin charging you interest on the amount you owe and a late fee, and they could also increase your interest rate.  
|    | • Your statement will also include a Late Payment Warning, explaining what may happen if you don’t pay on time. |
| J. | Rate Information—shows how interest and fees are calculated year-to-date.                 |
| K. | Payment Coupon—repeats your current payment information. Include this coupon with your check if you pay by mail, and be sure to write in your new address if you’ve moved. |

---

**Tip!** Remember: With a savings account you earn interest; when you borrow you pay interest. The interest rate a lender charges you depends on how good they believe your credit is—your creditworthiness.
How to Read Your Credit Card Statement

Credit card statement formats vary, but take a look at this sample.

**CARD Statement**

- **Account Number**: 1234 1234 1234 1234
- **Statement Closing Date**: 11/06/09
- **Credit Line**: $2,100.00
- **Available Credit**: $1,576.80

- **Previous Balance**: $1,686.15
- **Credits**: $0.00
- **Payments**: $1,686.15
- **Purchases & Other Chgs**: $523.20
- **Cash Advances**: $0.00
- **FINANCE CHARGE**: $0.00
- **New Balance**: $523.20

**Payment Information**

- **New Balance**: $523.20
- **Scheduled Minimum Payment**: $35.00
- **Scheduled Payment Due Date**: 12/01/09

**Rate Information**

<table>
<thead>
<tr>
<th>Type of Balance</th>
<th>Corresponding Annual Percentage Rate</th>
<th>Daily Finance Charge Rate</th>
<th>Average Daily Finance Charge Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>PURCHASE(S)</td>
<td>19.80%</td>
<td>.05424%</td>
<td>$0.00</td>
</tr>
<tr>
<td>CASH ADVANCE(S)</td>
<td>21.80%</td>
<td>.05972%</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

**Composite Annual Percentage Rate**: 21.80%

**Transactions**

<table>
<thead>
<tr>
<th>Trans Post</th>
<th>Reference Number</th>
<th>Description</th>
<th>Credits</th>
<th>Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/09</td>
<td>XXXXXXXXXXXXXXXXXX</td>
<td>MERCHANT NAME</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10/08</td>
<td>XXXXXXXXXXXXXXXXXX</td>
<td>PAYMENTS</td>
<td></td>
<td>1,686.15</td>
</tr>
</tbody>
</table>

**Account Number**: 1234 1234 1234 1234

- **New Balance**: $523.20
- **Scheduled Minimum Payment**: $35.00
- **Scheduled Payment Due Date**: 12/01/09

**Amount Enclosed**: $

**PAYMENT ADDRESS**

123 ANY STREET
LOS ANGELES, CA 90030-0086

**TERESA TORRES**

123 ANY STREET
CITY, CA 123455

**12/01/09**
### How to Read Your Credit Card Statement (continued)

#### Reading Your Credit Statement

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td>Credit card account number—keep it a secret, or others can use your account.</td>
</tr>
<tr>
<td>B.</td>
<td>Closing date of the statement—the date the credit card company created this statement.</td>
</tr>
<tr>
<td>C.</td>
<td>Amount of your credit line—your spending limit.</td>
</tr>
<tr>
<td>D.</td>
<td>Available credit—amount of credit that you haven’t borrowed yet, so it’s still available to you.</td>
</tr>
<tr>
<td>E.</td>
<td>Transactions section—shows a list of each charge and payment you made in date order.</td>
</tr>
<tr>
<td>F.</td>
<td>Your transactions are summarized here, in the Account Summary section. You’ll also see totals for fees and interest charged for this month.</td>
</tr>
<tr>
<td>G.</td>
<td>Payment Information—shows total amount you now owe, called your New Balance.</td>
</tr>
</tbody>
</table>
| H. | • Minimum Payment—each month, you must pay at least this portion of what you owe. You may pay more, up to the total amount. If you want to have good credit, and reduce the amount of interest you’ll pay, it’s a good idea to pay more than the minimum payment each month.  
• Your statement shows how long it will take to pay off your balance if you make only the minimum payment due each month.  
• Contact information for credit counseling services is provided. |
| I. | • Due Date—the date the credit card company must receive your payment by. Or, they will begin charging you interest on the amount you owe and a late fee, and they could also increase your interest rate.  
• Your statement will also include a Late Payment Warning, explaining what may happen if you don’t pay on time. |
| J. | Rate Information—shows how interest and fees are calculated year-to-date. |
| K. | Payment Coupon—repeats your current payment information. Include this coupon with your check if you pay by mail, and be sure to write in your new address if you’ve moved. |

---

**Tip!**

Remember: With a savings account you earn interest; when you borrow you pay interest. The interest rate a lender charges you depends on how good they believe your credit is—your creditworthiness.
**Credit Card Statement Matching Activity (Instructor Copy)**

**Instructor note:**
Photocopy the activity handout on the next page. Direct participants to match the correct credit card statement term with its definition.

**Instructions:**
Have your participants place the letter of the credit card statement term next to the correct definition.

### Credit Card Statement Matching Activity

<table>
<thead>
<tr>
<th>Term</th>
<th>Match</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Payment information</td>
<td>E</td>
<td>Shows how interest and fees are calculated</td>
</tr>
<tr>
<td>B. Due date</td>
<td>K</td>
<td>Sent with your payment</td>
</tr>
<tr>
<td>C. Minimum payment</td>
<td>J</td>
<td>Identifies your account numerically</td>
</tr>
<tr>
<td>D. Account summary</td>
<td>B</td>
<td>When your credit card company must receive your payment to avoid any late fees</td>
</tr>
<tr>
<td>E. Rate information</td>
<td>I</td>
<td>When the credit card company created this statement</td>
</tr>
<tr>
<td>F. Transaction</td>
<td>D</td>
<td>Summarizes your transactions</td>
</tr>
<tr>
<td>G. Available credit</td>
<td>L</td>
<td>Shows how interest and fees are calculated</td>
</tr>
<tr>
<td>H. Credit line</td>
<td>F</td>
<td>Shows a list of each charge</td>
</tr>
<tr>
<td>I. Closing date</td>
<td>A</td>
<td>Shows total amount you now owe</td>
</tr>
<tr>
<td>J. Credit card account number</td>
<td>C</td>
<td>Smallest amount you must pay each month</td>
</tr>
<tr>
<td>K. Payment coupon</td>
<td>G</td>
<td>Amount of credit that you haven't borrowed yet</td>
</tr>
<tr>
<td>L. Rate information</td>
<td>H</td>
<td>Your spending limit</td>
</tr>
<tr>
<td>M. APR</td>
<td>M</td>
<td>The annual percentage rate you will be charged for the money your borrow when you use your card</td>
</tr>
</tbody>
</table>
## Credit Card Statement Matching Activity

**Instructions:**
Place the letter of the credit card statement term next to the correct definition.

<table>
<thead>
<tr>
<th>Term</th>
<th>Match</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Payment information</td>
<td></td>
<td>Shows how interest and fees are calculated</td>
</tr>
<tr>
<td>B. Due date</td>
<td></td>
<td>Sent with your payment</td>
</tr>
<tr>
<td>C. Minimum payment</td>
<td></td>
<td>Identifies your account numerically</td>
</tr>
<tr>
<td>D. Account summary</td>
<td></td>
<td>When your credit card company must receive your payment to avoid any late fees</td>
</tr>
<tr>
<td>E. Rate information</td>
<td></td>
<td>When the credit card company created this statement</td>
</tr>
<tr>
<td>F. Transaction</td>
<td></td>
<td>Summarizes your transactions</td>
</tr>
<tr>
<td>G. Available credit</td>
<td></td>
<td>Shows how interest and fees are calculated</td>
</tr>
<tr>
<td>H. Credit line</td>
<td></td>
<td>Shows a list of each charge</td>
</tr>
<tr>
<td>I. Closing date</td>
<td></td>
<td>Shows total amount you now owe</td>
</tr>
<tr>
<td>J. Credit card account number</td>
<td></td>
<td>Smallest amount you must pay each month</td>
</tr>
<tr>
<td>K. Payment coupon</td>
<td></td>
<td>Amount of credit that you haven't borrowed yet</td>
</tr>
<tr>
<td>L. Rate information</td>
<td></td>
<td>Your spending limit</td>
</tr>
<tr>
<td>M. APR</td>
<td></td>
<td>The annual percentage rate you will be charged for the money your borrow when you use your card</td>
</tr>
</tbody>
</table>

HANDS ON BANKING* • INSTRUCTOR GUIDE • ADULTS • VERSION 5.1
©2003, 2013 Wells Fargo Bank, N.A. All rights reserved. Member FDIC [www.handsonbanking.org](http://www.handsonbanking.org)
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Managing Credit Card Finance Charges

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
## Credit Card Safety (Instructor Copy)

**Instructor note:**
*Photocopy the activity handout on the next page. Then, lead a discussion about credit card safety.*

### Credit Card Safety Tips

<table>
<thead>
<tr>
<th>Tip</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Deal with loss or theft!** | • Report lost or stolen credit cards immediately to the issuing card company. If your ATM card or debit card is lost or stolen, contact your bank immediately.  
• To help you respond quickly in case your cards or ID are lost or stolen, make a chart that lists the credit card name, the financial institution, the account number, and the 24-hour customer service number. Be sure to store the list in a safe place. Never carry it with you.                                           |
| **Care for your cards**     | • Sign your card on the signature panel as soon as you receive it.  
• Keep cards away from magnets (they can erase information on the cards’ magnetic strip)                                               |
| **Treat cards like cash**   | • Protect your cards as if they were cash—never let them out of your possession or control.                                                  
• Don’t leave your credit cards in your car’s glove compartment. A high percentage of credit card thefts are from car glove compartments.  
• Don’t lend your cards—credit, debit, or ATM—to anyone. You are responsible for their use. Don’t let your credit cards be used by others, even family and friends.  
• Always be sure to take your ATM card out of the ATM.                                                                 |
| **When shopping**           | • When shopping, be sure that you get your card back after every purchase.  
• Always make sure that sales vouchers are for the correct purchase amount before you sign them.  
• Keep copies of your sales vouchers and ATM, debit or credit card receipts in a secure place.  
• Don’t volunteer any personal information when you use your credit card, other than by displaying personal identification as requested by a merchant.  
• Don’t put your driver’s license number on your checks.  
• Review your statements regularly to ensure there are no suspicious charges.  
• Contact your bank immediately if you see a charge you don’t recognize.                                                                 |
| **Monitor your accounts**   | • To avoid fraud, monitor your accounts online—including when you’re away traveling.  
• Some financial institutions offer tools and services to help you monitor and manage your accounts, such as email alerts, automatic payments, and online reports that track your spending into budget categories. |
### Credit Card Safety

Follow these tips and techniques to keep your credit cards safe.

#### Credit Card Safety Tips

<table>
<thead>
<tr>
<th>Tip</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Deal with loss or theft!**     | • Report lost or stolen credit cards immediately to the issuing card company. If your ATM card or debit card is lost or stolen, contact your bank immediately.  
• To help you respond quickly in case your cards or ID are lost or stolen, make a chart that lists the credit card name, the financial institution, the account number, and the 24-hour customer service number. Be sure to store the list in a safe place. Never carry it with you. |
| **Care for your cards**           | • Sign your card on the signature panel as soon as you receive it.  
• Keep cards away from magnets (they can erase information on the cards’ magnetic strip) |
| **Treat cards like cash**         | • Protect your cards as if they were cash—never let them out of your possession or control.  
• Don’t leave your credit cards in your car’s glove compartment. A high percentage of credit card thefts are from car glove compartments.  
• Don’t lend your cards—credit, debit, or ATM—to anyone. You are responsible for their use. Don’t let your credit cards be used by others, even family and friends.  
• Always be sure to take your ATM card out of the ATM. |
| **When shopping**                 | • When shopping, be sure that you get your card back after every purchase.  
• Always make sure that sales vouchers are for the correct purchase amount before you sign them.  
• Keep copies of your sales vouchers and ATM, debit or credit card receipts in a secure place.  
• Don’t volunteer any personal information when you use your credit card, other than by displaying personal identification as requested by a merchant.  
• Don’t put your driver’s license number on your checks.  
• Review your statements regularly to ensure there are no suspicious charges.  
• Contact your bank immediately if you see a charge you don’t recognize. |
| **Monitor your accounts**         | • To avoid fraud, monitor your accounts online—including when you’re away traveling.  
• Some financial institutions offer tools and services to help you monitor and manage your accounts, such as email alerts, automatic payments, and online reports that track your spending into budget categories. |
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Card Safety Tips

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Credit Cards lesson:

• Lots of financial institutions offer credit cards and some will charge you an annual fee to have one.

• When you apply for a card, they’ll check your credit history and decide whether or not to give you a card.

• They’ll also decide how much you’re allowed to borrow, or “charge.” This is called your credit limit.

• If the credit card company issues you a card, they’ll let you know what your credit limit will be.

• Credit cards are called revolving credit because as you pay the money back, your credit becomes available for you to use again and again.

• Be sure to shop around for the best credit card offer that fits your need and with the lowest APR.
Lesson 6: Loans

This lesson will teach participants the essentials of loans and the lending process. They will learn how to shop for a responsible lender and what to do if their loan is not approved and how to manage it if it is. Finally they’ll learn what information they need before they sign a loan agreement.

Learning Objectives
After completing this lesson, participants will be able to:

- Explain the essentials of loans and the lending process
- Shop for a responsible lender
- Determine their next course of action if their loan isn’t approved
- Manage their loan when it is approved
- List information they’ll need before they sign a loan agreement

Start the Discussion
To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

- If you currently have any loans, how you describe the process of finding a lender, getting approved and signing the agreement?
- If you’ve ever been rejected for a loan, how did that make you feel? What steps, if any, did you take to rectify the situation?
- What types of loans do you think you’ll need in the future? Do you think you’ll be approved right away, or are there things you need to work on?

The Basics
- Loans are a very common way to borrow money.
- Millions of people apply for loans to pay for high-priced items—cars, home improvements, education.
- With a loan, you receive all the money the lender has approved for you in one lump sum.
- To pay the lender back, you make equal monthly payments called installments, for a fixed period of time, until it is paid off.
- The lender will charge you extra money over the amount you borrow. This is called interest. Some lenders may charge you a fee for the loan.
- How much interest you’ll pay for your loan depends on three things—how much you’re borrowing (principal), the interest rate, and the term of the loan (how long it will take you to pay it back).
Topic 4 — Using Credit To Your Advantage

Compare the Terms Discussion (Instructor Copy)

**Instructor note:**
Photocopy the diagram on the next page. Then lead a discussion comparing the two types of loans. Mention the key points below the diagram.

### Term Comparison
Based on 10% Annual Percentage Rate (APR)

<table>
<thead>
<tr>
<th>Loan amount</th>
<th>$10,000</th>
<th>$10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term</td>
<td>25 months</td>
<td>49 months</td>
</tr>
<tr>
<td>Monthly payment</td>
<td>$450</td>
<td>$250</td>
</tr>
<tr>
<td>Total cost of loan</td>
<td>$11,106</td>
<td>$12,215</td>
</tr>
<tr>
<td>Total interest paid</td>
<td>$1,106</td>
<td>$2,215</td>
</tr>
</tbody>
</table>

*Please note: the final month’s loan payment may vary from the regular monthly payment.

**Key Points:**

- Note how the term affects the monthly payment and the total cost of the loan.
- The cost of a loan will depend on two things 1) how long you take to pay it back (the term) and 2) the interest rate you’re being charged.
- With a longer term loan, the monthly payments are lower, but the total cost is higher because of interest.
- By repaying in 49 months vs. 25 months, this borrower would end up paying more than $1,100 more in interest!
- The final month payment may vary to match remaining balance.
Compare the Terms Discussion

Instructions:
Follow along as your instructor discusses the differences between the two loans shown in the table. Use the space under the diagram to take notes or write questions.

**Term Comparison**
Based on 10% Annual Percentage Rate (APR)

<table>
<thead>
<tr>
<th>Loan amount</th>
<th>$10,000</th>
<th>$10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term</td>
<td>25 months</td>
<td>49 months</td>
</tr>
<tr>
<td>Monthly payment</td>
<td>$450</td>
<td>$250</td>
</tr>
<tr>
<td>Total cost of loan</td>
<td>$11,106</td>
<td>$12,215</td>
</tr>
<tr>
<td>Total interest paid</td>
<td>$1,106</td>
<td>$2,215</td>
</tr>
</tbody>
</table>

*Please note: the final month's loan payment may vary from the regular monthly payment.

Key Points:
- Note how the term affects the monthly payment and the total cost of the loan.
- The cost of a loan will depend on two things 1) how long you take to pay it back (the term) and 2) the interest rate you’re being charged.
- With a longer term loan, the monthly payments are lower, but the total cost is higher because of interest.
- By repaying in 49 months vs. 25 months, this borrower would end up paying more than $1,100 more in interest!
- The final month payment may vary to match remaining balance.
Compare the Interest Rates (Instructor Copy)

Instructor note:
Photocopy the diagram on the next page. Then lead a discussion comparing the interest rates of the two loans. Mention the key points below the diagram.

### Interest Rate Comparison

<table>
<thead>
<tr>
<th>Loan amount</th>
<th>$10,000</th>
<th>$10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term</td>
<td>5 years</td>
<td>5 years</td>
</tr>
<tr>
<td>Interest rate</td>
<td>5%</td>
<td>15%</td>
</tr>
<tr>
<td>Monthly payment</td>
<td>$188.77</td>
<td>$237.90</td>
</tr>
<tr>
<td>Total interest over 5 years</td>
<td>$1,236.92</td>
<td>$4,271.08</td>
</tr>
</tbody>
</table>

*Please note: the final month’s loan payment may vary from the regular monthly payment.

**Key Points:**
- By getting a 5% interest rate vs. 15%, this borrower would save over $3,000 interest over five years!
- See how the interest rate affects the total amount of interest paid?
- As for the interest rate, it's important to shop around.
- Some lenders may give you a lower rate than others.
- In general, the shorter the term, the lower the interest rate.
Compare the Interest Rates

Instructions:
Follow along as your instructor discusses the differences between the interest rates shown in the table. Use the space under the diagram to take notes or write questions.

### Interest Rate Comparison

<table>
<thead>
<tr>
<th>Loan amount</th>
<th>$10,000</th>
<th>$10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term</td>
<td>5 years</td>
<td>5 years</td>
</tr>
<tr>
<td>Interest rate</td>
<td>5%</td>
<td>15%</td>
</tr>
<tr>
<td>Monthly payment</td>
<td>$188.77</td>
<td>$237.90</td>
</tr>
<tr>
<td>Total interest over 5 years</td>
<td>$1,236.92</td>
<td>$4,271.08</td>
</tr>
</tbody>
</table>

*Please note: the final month’s loan payment may vary from the regular monthly payment.

Key Points:
- By getting a 5% interest rate vs. 15%, this borrower would save over $3,000 interest over five years!
- See how the interest rate affects the total amount of interest paid?
- As for the interest rate, it’s important to shop around.
- Some lenders may give you a lower rate than others.
- In general, the shorter the term, the lower the interest rate.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Loan Comparison Worksheet

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
**Topic 4 — Using Credit To Your Advantage**

**The Loan Process Activity (Instructor Copy)**

**Instructor note:**
Photocopy the activity handout on the next page. Explain to your participants that you will be leading a discussion or discussion about using credit cards responsibly. Ask them to follow along with their activity handout and write in the correct word or phrase in the blanks.

**Instructions:**
Have your participants fill in the blanks as they listen to the discussion.

**Key points:**
- If you’re planning to apply for a loan, remember to shop for your lender—and your loan. Interview lenders.
- Ask them questions about the choices they offer and what these choices will cost you.

**The Loan Process**

<table>
<thead>
<tr>
<th>Step</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comparison shop</strong></td>
<td>• Take some time to comparison shop for your loan. When you compare loans, it can be hard to see which one will cost you the least.</td>
</tr>
<tr>
<td></td>
<td>• To make it easier, lenders are required to tell you a loan’s annual percentage rate, or APR.</td>
</tr>
<tr>
<td></td>
<td>• The APR is a number that combines the interest rate, the term, and the fees to show you the total cost of the loan. The lower the APR, the lower the total cost.</td>
</tr>
<tr>
<td></td>
<td>• Remember, the loan with the smallest monthly payment may not have the lowest cost overall.</td>
</tr>
<tr>
<td><strong>Discuss the costs and options</strong></td>
<td>• Discuss the costs and the options with your lender.</td>
</tr>
<tr>
<td></td>
<td>• Carefully study the monthly payment and the APR.</td>
</tr>
<tr>
<td></td>
<td>• Then decide if you can really afford the loan. You want to be sure the monthly loan payment is an amount you can afford, but minimize the total cost of your loan if you can.</td>
</tr>
<tr>
<td><strong>Understand before you sign</strong></td>
<td>• Before you sign any loan agreement, be sure to read it, including the fine print.</td>
</tr>
<tr>
<td></td>
<td>• Make sure you understand the terms and the costs.</td>
</tr>
<tr>
<td><strong>Unsure? Don’t sign!</strong></td>
<td>• It’s very important to be comfortable with your lender and make sure you fully understand everything about your loan before you sign.</td>
</tr>
<tr>
<td></td>
<td>• If you’re unsure, don’t sign—and seek advice.</td>
</tr>
<tr>
<td><strong>How long before they decide?</strong></td>
<td>• It often takes a few days for a decision to be made about your loan application.</td>
</tr>
<tr>
<td></td>
<td>• However, a bank legally has up to 30 days to respond.</td>
</tr>
<tr>
<td><strong>You have legal rights</strong></td>
<td>• If you decide to apply for a loan, remember that you have legal rights as a borrower.</td>
</tr>
<tr>
<td></td>
<td>• The U.S. government passed the Equal Credit Opportunity Act to promote the availability of credit to all applicants who qualify for credit without regard to race, color, religion, national origin, gender, marital status, or age.</td>
</tr>
</tbody>
</table>
The Loan Process Activity

**Instructions:**
As you listen to the instructor lead this discussion, fill in the blanks.

### The Loan Process

<table>
<thead>
<tr>
<th>Step</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comparison shop</strong></td>
<td>• Take some time to comparison shop for your loan. When you compare loans, it can be hard to see which one will cost you the least.</td>
</tr>
<tr>
<td></td>
<td>• To make it easier, lenders are required to tell you a loan’s ____________________________, or APR.</td>
</tr>
<tr>
<td></td>
<td>• The APR is a number that combines the ____________________________, the term, and the fees to show you the total cost of the loan. The lower the APR, the ____________________________ the total cost.</td>
</tr>
<tr>
<td></td>
<td>• Remember, the loan with the smallest monthly payment may not have the lowest ____________________________ overall.</td>
</tr>
<tr>
<td><strong>Discuss the costs and options</strong></td>
<td>• Discuss the costs and the options with your lender.</td>
</tr>
<tr>
<td></td>
<td>• Carefully study the ____________________________ and the APR.</td>
</tr>
<tr>
<td></td>
<td>• Then decide if you can really afford the loan. You want to be sure the monthly loan payment is an amount you can afford, but minimize the total cost of your loan if you can.</td>
</tr>
<tr>
<td><strong>Understand before you sign</strong></td>
<td>• Before you sign any loan agreement, be sure to ____________________________ including the fine print.</td>
</tr>
<tr>
<td></td>
<td>• Make sure you understand the terms and the costs.</td>
</tr>
<tr>
<td><strong>Unsure? Don’t sign!</strong></td>
<td>• It’s very important to be ____________________________ with your lender and make sure you fully understand everything about your loan before you sign.</td>
</tr>
<tr>
<td></td>
<td>• If you’re unsure, ____________________________ —and seek advice.</td>
</tr>
<tr>
<td><strong>How long before they decide?</strong></td>
<td>• It often takes a few days for a decision to be made about your loan application.</td>
</tr>
<tr>
<td></td>
<td>• However, a bank legally has up to ____________________________ days to respond.</td>
</tr>
<tr>
<td><strong>You have legal rights</strong></td>
<td>• If you decide to apply for a loan, remember that you have legal rights as a borrower.</td>
</tr>
<tr>
<td></td>
<td>• The U.S. government passed the Equal Credit Opportunity Act to promote the availability of credit to all applicants who qualify for credit ____________________________ race, color, religion, national origin, gender, marital status, or age.</td>
</tr>
</tbody>
</table>
Choose a Lender the Smart Way

*Instructor note:*
*Lead a discussion using these key discussion points.*

Choosing a lender may be intimidating, but the risks can be mitigated with your planning and selection process.

**Always be careful when selecting a lender.**
- A responsible lender can help you gain financial flexibility and achieve your goals.
- Unfortunately, there are a few lenders you should watch out for.

**Predatory lending does exist.**
- Anyone can be a target.
- Know the warning signs to look for can help you to avoid being a victim.

**How do you find a responsible lender?**
- Look for an established company with a good reputation.
- Ask a money-savvy friend, family member, or work associate for a referral.
- Or, ask your local banker or employer.

**What are the good signs of a responsible lender?**
- Good lenders will put everything in writing, give you time to shop and compare costs and rates before you sign a loan agreement.
- Good lenders typically work for an established company with a good reputation.
### Potential Warning Signs to Watch For (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the following page and give it to participants as a take-away sheet. Then discuss each warning sign of predatory lending.

#### Warning Signs of Predatory Lending

<table>
<thead>
<tr>
<th>Warning Sign</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Encouragement to include false information</strong></td>
<td>- If a lender has changed any of your income or expense information or leaves your income blank, do not sign the loan application.</td>
</tr>
<tr>
<td><strong>Incomplete loan documents.</strong></td>
<td>- Never sign a loan document with missing information.</td>
</tr>
<tr>
<td></td>
<td>- Don't work with a lender who asks you to sign a document that is not completely or accurately filled in.</td>
</tr>
<tr>
<td><strong>“Bait and switch” sales tactics.</strong></td>
<td>- When a lender makes promises in order to make the sale, then backs out on the promises after the sale.</td>
</tr>
<tr>
<td></td>
<td>- To avoid this, it’s critical to carefully read and understand the agreement before you sign.</td>
</tr>
<tr>
<td></td>
<td>- Question anything in the document that is not consistent with what you were told.</td>
</tr>
<tr>
<td></td>
<td>- Don’t sign the agreement if anything in it is unclear, incomplete, or not as promised.</td>
</tr>
<tr>
<td><strong>Equity stripping or skimming, also known as foreclosure rescue.</strong></td>
<td>- Predatory investors or small companies target low-income homeowners facing foreclosure and trick them into signing away their equity and property.</td>
</tr>
<tr>
<td></td>
<td>- For example, they might bury a document in a stack of loan papers that signs over ownership of the home to the loan company, or even forge the homeowners’ signatures.</td>
</tr>
<tr>
<td><strong>Loan flipping</strong></td>
<td>- Refinancing a loan can be a responsible and useful financial strategy, but loan flipping is when a lender persuades a borrower to repeatedly refinance a loan, often within a short time frame, charging high points and fees each time.</td>
</tr>
<tr>
<td></td>
<td>- This will cost you money and postpones the loan principal from being reduced.</td>
</tr>
<tr>
<td><strong>Bi-weekly loan payments</strong></td>
<td>- Some predatory lenders may charge you up to $1,000 for the “privilege” of paying your loan biweekly.</td>
</tr>
<tr>
<td></td>
<td>- Although this can decrease the total interest you pay over the life of the loan and the time it takes to pay in full, such accounts can often be set up for free or for a one-time fee of a few hundred dollars.</td>
</tr>
<tr>
<td><strong>Required (or requested) deed signing</strong></td>
<td>- If you are behind on your mortgage payments, a predatory lender may offer to help find new financing and ask you to deed your property over to the lender as a temporary measure to prevent foreclosure. But then the promised loan never comes, and the lender who made you the offer owns your home.</td>
</tr>
</tbody>
</table>
Potential Warning Signs to Watch For (Instructor Copy)

Warning Signs of Predatory Lending (continued)

<table>
<thead>
<tr>
<th>Warning Sign</th>
<th>Description</th>
</tr>
</thead>
</table>
| Advertisements promising “No Credit? No Problem!” | • These are often warning signs of scams. Consumers responding to such ads are guided through a phony application process and may even receive fake loan approval documents.  
• To receive the approved loan, they are told to pay money up-front for fees or services—and instead, end up losing their money—and in some cases, their homes. |
| Promises to refinance the loan to a better rate in the future. | • No one can make you that promise. Instead, ask the lender if there is anything you can do to get a better rate now. |

Tip!

Balloon payments are large, lump-sum payments due at the end of the term. Before you agree to a balloon loan, make sure you fully understand and are prepared to pay the loan balance when it’s due.
### Potential Warning Signs to Watch For

#### Warning Signs of Predatory Lending

<table>
<thead>
<tr>
<th>Warning Sign</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encouragement to include false information</td>
<td>• If a lender has changed any of your income or expense information or leaves your income blank, do not sign the loan application.</td>
</tr>
<tr>
<td>Incomplete loan documents.</td>
<td>• Never sign a loan document with missing information.</td>
</tr>
<tr>
<td></td>
<td>• Don’t work with a lender who asks you to sign a document that is not completely or accurately filled in.</td>
</tr>
<tr>
<td>“Bait and switch” sales tactics.</td>
<td>• When a lender makes promises in order to make the sale, then backs out on the promises after the sale.</td>
</tr>
<tr>
<td></td>
<td>• To avoid this, it’s critical to carefully read and understand the agreement before you sign.</td>
</tr>
<tr>
<td></td>
<td>• Question anything in the document that is not consistent with what you were told.</td>
</tr>
<tr>
<td></td>
<td>• Don’t sign the agreement if anything in it is unclear, incomplete, or not as promised.</td>
</tr>
<tr>
<td>Equity stripping or skimming, also known as foreclosure rescue.</td>
<td>• Predatory investors or small companies target low-income homeowners facing foreclosure and trick them into signing away their equity and property.</td>
</tr>
<tr>
<td></td>
<td>• For example, they might bury a document in a stack of loan papers that signs over ownership of the home to the loan company, or even forge the homeowners’ signatures.</td>
</tr>
<tr>
<td>Loan flipping</td>
<td>• Refinancing a loan can be a responsible and useful financial strategy, but loan flipping is when a lender persuades a borrower to repeatedly refinance a loan, often within a short time frame, charging high points and fees each time.</td>
</tr>
<tr>
<td></td>
<td>• This will cost you money and postpones the loan principal from being reduced.</td>
</tr>
<tr>
<td>Bi-weekly loan payments</td>
<td>• Some predatory lenders may charge you up to $1,000 for the “privilege” of paying your loan biweekly.</td>
</tr>
<tr>
<td></td>
<td>• Although this can decrease the total interest you pay over the life of the loan and the time it takes to pay in full, such accounts can often be set up for free or for a one-time fee of a few hundred dollars.</td>
</tr>
<tr>
<td>Required (or requested) deed signing</td>
<td>• If you are behind on your mortgage payments, a predatory lender may offer to help find new financing and ask you to deed your property over to the lender as a temporary measure to prevent foreclosure. But then the promised loan never comes, and the lender who made you the offer owns your home.</td>
</tr>
</tbody>
</table>
Potential Warning Signs to Watch For

Warning Signs of Predatory Lending (continued)

<table>
<thead>
<tr>
<th>Warning Sign</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Advertisements**
  **promising**
  **“No Credit? No Problem!”** | • These are often warning signs of scams. Consumers responding to such ads are guided through a phony application process and may even receive fake loan approval documents.  
• To receive the approved loan, they are told to pay money up-front for fees or services—and instead, end up losing their money—and in some cases, their homes. |
| **Promises to refinance the loan to a better rate in the future.** | • No one can make you that promise. Instead, ask the lender if there is anything you can do to get a better rate now. |

Tip!

Balloon payments are large, lump-sum payments due at the end of the term. Before you agree to a balloon loan, make sure you fully understand and are prepared to pay the loan balance when it’s due.
You’re at Risk Activity (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. Instruct your participants to place a check mark next to the groups of people who may be at higher risk of predatory lending. Then discuss what other types of people may be at risk.

Anyone can be a victim of predatory lending, but for a variety of reasons some people are at especially high risk.

Instructions:
Have your participants place a check mark next to the five different groups of people who are at higher risk of predatory lending.

Groups at Risk of Predatory Lending

<table>
<thead>
<tr>
<th>People</th>
<th>At higher risk?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elderly homeowners</td>
<td>✔</td>
</tr>
<tr>
<td>Middle-aged apartment dwellers</td>
<td></td>
</tr>
<tr>
<td>Minorities and immigrants</td>
<td>✔</td>
</tr>
<tr>
<td>People who have multiple loans</td>
<td></td>
</tr>
<tr>
<td>People with limited English skills</td>
<td>✔</td>
</tr>
<tr>
<td>People with limited knowledge about finance</td>
<td>✔</td>
</tr>
<tr>
<td>People with substantial equity in their homes and low or fixed incomes</td>
<td>✔</td>
</tr>
<tr>
<td>Recent college graduates</td>
<td></td>
</tr>
<tr>
<td>Single parents with several children</td>
<td></td>
</tr>
<tr>
<td>Students</td>
<td></td>
</tr>
</tbody>
</table>
You’re at Risk Activity

Anyone can be a victim of predatory lending, but for a variety of reasons some people are at especially high risk.

Instructions:
Place a check mark next to the five different groups of people who are at higher risk of predatory lending.

Groups at Risk of Predatory Lending

<table>
<thead>
<tr>
<th>People</th>
<th>At higher risk?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elderly homeowners</td>
<td></td>
</tr>
<tr>
<td>Middle-aged apartment dwellers</td>
<td></td>
</tr>
<tr>
<td>Minorities and immigrants</td>
<td></td>
</tr>
<tr>
<td>People who have multiple loans</td>
<td></td>
</tr>
<tr>
<td>People with limited English skills</td>
<td></td>
</tr>
<tr>
<td>People with limited knowledge about finance</td>
<td></td>
</tr>
<tr>
<td>People with substantial equity in their homes and low or fixed incomes</td>
<td></td>
</tr>
<tr>
<td>Recent college graduates</td>
<td></td>
</tr>
<tr>
<td>Single parents with several children</td>
<td></td>
</tr>
<tr>
<td>Students</td>
<td></td>
</tr>
</tbody>
</table>

Can you think of any other people who may at an especially high risk for predatory lending? Write them down here.
Scenario Activity—Choosing a Lender (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. After participants finish the activity, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:
Have participants read Mariana's story. Based on her situation, have them select the best possible option. Then, for each option, they will write a few sentences about why the option was right or wrong for Mariana's situation.

Mariana's Story
Mariana's roof leaks, so she needs to act fast. A local roofer has recommended a lender. He's offering the amount she needs and a very quick loan process. In fact, all she needs to do is sign his standard agreement; he'll fill in the details later. The monthly payment is higher than she hoped, but he says this can be adjusted after 90 days. Because all the roofing companies are so busy, he urges her to sign the agreement today.

1. Sign the agreement today and avoid water damage. Then, switch later for a better deal.
   Consequences: The lender didn't write in the things he promised me. Mariana realizes now that he was just rushing her and scaring her into signing fast. Thank goodness her state has a law that allows her to back out within three days. She should have checked before she signed.
   Feedback: Next time, tell Mariana to shop around and get all of her questions answered before she signs anything. Remember, to buy time, she can always tell the lender she has to check with someone else before making a decision.

2. Sign the papers only if the lender will give her the low monthly payment right away.
   Consequences: Mariana thought that if she got the low monthly payment everything would be fine. But she found out the hard way that a low payment doesn't guarantee a good deal. When the lender filled in the agreement, he added lots of extra charges they hadn't discussed. She should have insisted on getting all the terms in writing—and made sure I understood and agree—before signing.
   Feedback: Not quite. The promise of a low monthly payment doesn't make this deal a safe one. Mariana needs everything in writing, and shouldn't sign anything she doesn't like or understand, even if they cancel the loan offer.

3. Don't sign! Shop and compare more loan offers.
   Consequences: Mariana knew something was wrong when he rushed her to sign a blank document. Even though she was in a hurry she knew she should ask a lot of questions, shop around and compare. She ended up finding an established lender with a good reputation and satisfied customers. They gave her everything in writing so she could check the numbers.
   Feedback: Congratulations! You did a good job spotting some of the warning signs of a predatory lender: a blank agreement, sales pressure, and no opportunity to shop and compare. You definitely did Mariana a huge favor by saving her from a very dangerous deal!
Scenario Activity—Choosing a Lender

Instructions:
Read Mariana’s story. Based on her situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Mariana’s situation.

Mariana’s Story
Mariana’s roof leaks, so she needs to act fast. A local roofer has recommended a lender. He’s offering the amount she needs and a very quick loan process. In fact, all she needs to do is sign his standard agreement; he’ll fill in the details later. The monthly payment is higher than she hoped, but he says this can be adjusted after 90 days. Because all the roofing companies are so busy, he urges her to sign the agreement today.

What should Mariana do?

1. **Sign the agreement today and avoid water damage. She can switch later if she finds a better deal.**
   Should she choose this option? Why or why not?

2. **Sign the papers only if the lender will give her the low monthly payment right away.**
   Should she choose this option? Why or why not?

3. **Don’t sign! Shop and compare more loan offers.**
   Should she choose this option? Why or why not?
**If the Lender Says No Activity (Instructor Copy)**

**Instructor note:**
Photocopy the activity handout on the next page and have participants complete the activity. When they finish, discuss each reason a lender says no or the steps they can take to have the lender reconsider.

**Instructions:**
Have participants place an “X” next to the items that may be a reason a lender said no. Have them place an “O” next to the steps they can take to have a lender reconsider.

<table>
<thead>
<tr>
<th>Reason or Step to Take</th>
<th>X or O</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irregular employment</td>
<td>X</td>
</tr>
<tr>
<td>Pay off some of your existing debt.</td>
<td>O</td>
</tr>
<tr>
<td>Not enough income to repay the loan</td>
<td>X</td>
</tr>
<tr>
<td>Offer to make a larger down payment if possible.</td>
<td>O</td>
</tr>
<tr>
<td>Poor credit history (slow repayment of other loans)</td>
<td>X</td>
</tr>
<tr>
<td>No prior credit? Apply for a credit card with a low limit, make small purchases and pay on time.</td>
<td>O</td>
</tr>
<tr>
<td>Lack of credit history</td>
<td>X</td>
</tr>
<tr>
<td>Find out if all sources of income were considered in evaluating your application.</td>
<td>O</td>
</tr>
<tr>
<td>Find a reliable co-signer who is acceptable to the lender.</td>
<td>O</td>
</tr>
<tr>
<td>Too short a time at residence</td>
<td>X</td>
</tr>
<tr>
<td>Insufficient down payment</td>
<td>X</td>
</tr>
<tr>
<td>No credit history? Find out if factors such as payment of rent or utility bills could be considered.</td>
<td>O</td>
</tr>
<tr>
<td>Find out if the credit bureau made any are errors in the information they provided the lender.</td>
<td>O</td>
</tr>
</tbody>
</table>

**Tip!**
If a lender turns you down, don’t take it personally; lenders can’t grant or deny credit based on personality. Also, the Equal Credit Opportunity Act promotes credit for all applicants who qualify.
If the Lender Says No Activity

Instructions:
The list below contains 1) reasons a loan may not be granted and 2) steps you can take to have the lender reconsider.

Place an “X” next to the items that may be a reason a lender said no. Place an “O” next to the steps you can take to have a lender reconsider.

Reasons Lenders May Say “No” and Steps to Take if They Do

<table>
<thead>
<tr>
<th>Reason or Step to Take?</th>
<th>X or O</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irregular employment</td>
<td></td>
</tr>
<tr>
<td>Pay off some of your existing debt.</td>
<td></td>
</tr>
<tr>
<td>Not enough income to repay the loan</td>
<td></td>
</tr>
<tr>
<td>Offer to make a larger down payment if possible.</td>
<td></td>
</tr>
<tr>
<td>Poor credit history (slow repayment of other loans)</td>
<td></td>
</tr>
<tr>
<td>No prior credit? Apply for a credit card with a low limit, make small purchases and pay on time.</td>
<td></td>
</tr>
<tr>
<td>Lack of credit history</td>
<td></td>
</tr>
<tr>
<td>Find out if all sources of income were considered in evaluating your application.</td>
<td></td>
</tr>
<tr>
<td>Find a reliable co-signer who is acceptable to the lender.</td>
<td></td>
</tr>
<tr>
<td>Too short a time at residence</td>
<td></td>
</tr>
<tr>
<td>Insufficient down payment</td>
<td></td>
</tr>
<tr>
<td>No credit history? Find out if factors such as payment of rent or utility bills could be considered.</td>
<td></td>
</tr>
<tr>
<td>Find out if the credit bureau made any are errors in the information they provided the lender.</td>
<td></td>
</tr>
</tbody>
</table>

If a lender turns you down, don't take it personally; lenders can't grant or deny credit based on personality. Also, the Equal Credit Opportunity Act promotes credit for all applicants who qualify.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Managing Your Credit

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Scenario Activity—Managing a Loan (Instructor Copy)

Instructor note:
Photocopy the activity handout on the next page. After participants finish, lead a group discussion about their choices, using the consequences and feedback provided below.

Instructions:
Have participants read Kelly’s story. Based on her situation, they should select the best possible option. Then, for each option, they will write a few sentences about why the option was right or wrong for Kelly’s situation.

Kelly’s Story
Kelly bought an older home two years ago. She recently got a loan from her bank for a major purchase: adding an air conditioning system. Now she’s considering remodeling the attic to create an extra bedroom. She’ll need another loan to do it.

1. **Before taking on any more debt, she should make sure she can handle her new expenses.**
   Consequences: Kelly is so glad she didn't borrow the money. When summer weather hit, she started to use the air conditioning—and her utility bills went higher than she thought. If she had borrowed more money, it may have been tough to afford my house payments.

   Feedback: Great decision! Kelly was smart to first make sure she could handle her new monthly expenses. She might also consider contacting her utility company about a budget billing plan. This might allow her to pay the same amount each month, making it easier to plan her monthly budget.

2. **Apply for the new loan and see if she gets approved. The remodel will add to her home's value.**
   Consequences: Between my house payments, loan payments, and higher utility bills with the air conditioning, borrowing more money was probably the last thing Kelly should've done! If she doesn't pay her bills on time, she'll have to pay late fees on top of everything. Her credit rating might go down.

   Feedback: This is poor advice. Before adding more debt, she needed to be sure she could handle her new monthly expenses. If she can't make her loan payments, Kelly should call her lender immediately to discuss the situation and what to do next.

3. **Determine the new loan payment amount. Only proceed if it fits her budget.**
   Consequences: Kelly thought she could handle the second loan, but she was wrong. She didn't figure in her higher utility bills because of the air conditioning. Now she's struggling to pay bills on time and cutting back on things I don't want to.

   Feedback: Kelly was smart to analyze her budget and how much she could afford. But she should have avoided more debt until she was sure she could handle her new expenses. If she finds she can't make her loan payments, Kelly should call her lender immediately to discuss the situation and what to do next. Remember: If you're having trouble making loan payments, contact your lender immediately to discuss your situation and how you can work with them to repay.
**Scenario Activity—Managing a Loan**

**Instructions:**
Read Kelly’s story. Based on her situation, choose the best possible option. Then, for each option, write a few sentences about why the option was right or wrong for Kelly’s situation.

**Kelly’s Story**
Kelly bought an older home two years ago. She recently got a loan from her bank for a major purchase: adding an air conditioning system. Now she’s considering remodeling the attic to create an extra bedroom. She’ll need another loan to do it.

What should Kelly do?

1. **Before taking on any more debt, she should make sure she can handle her new expenses.**
   Should she choose this option? Why or why not?

2. **Apply for the new loan and see if she gets approved. The remodel will add to her home’s value.**
   Should she choose this option? Why or why not?

3. **Determine the new loan payment amount. Only proceed if it fits her budget.**
   Should she choose this option? Why or why not?
Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Loans lesson:

- Loans are a very common way to borrow money.
- Millions of people apply for loans to pay for high-priced items—cars, home improvements, education.
- With a loan, you receive all the money the lender has approved for you in one lump sum.
- To pay the lender back, you make equal monthly payments called installments, for a fixed period of time, until it is paid off.
- The lender will charge you extra money over the amount you borrow. This is called interest. Some lenders may charge you a fee for the loan.
- How much interest you’ll pay for your loan depends on three things—how much you’re borrowing (principal), the interest rate, and the term of the long (how long it will take you to pay it back).
Lesson 7: Dealing with Debt

In this lesson, your participants will learn to recognize the signs of having too much debt and learn how to deal with debt problems. They will learn valuable advice for working with creditors. Finally, they will learn about bankruptcy, its impact, and steps to take before considering filing for bankruptcy.

Learning Objectives
After completing this lesson, participants will be able to:

• Recognize the warning signs of too much debt
• Explain how to deal with debt problems
• Use valuable tips for working with creditors
• Describe what bankruptcy is
• Understand the impact bankruptcy can have on their financial picture
• Know what steps they can take to avoid bankruptcy

Start the Discussion
To start a discussion with your participants, ask some open-ended questions. Here are some examples you could use:

• What are some signs of having too much debt?
• What steps can you take to pay down your debt?
• Why would someone declare bankruptcy?
• What are some of the benefits of declaring bankruptcy? The disadvantages?

The Basics
Borrowing money gives you financial flexibility but if you're not carefully you may buy more things and spend more than you would otherwise.

• The key to financial freedom is living within your means. That means not borrowing more than you can comfortably afford to repay.
• If the amount you owe others is at an uncomfortable level, it is important to consider how to begin eliminating some of your debt.
• Owing people more than you can repay is painful. And it can negatively affect your money situation for years.
### Use Credit Wisely

**Instructor note:**
Photocopy the next page and give to your participants as a takeaway sheet. Then discuss each tip with them.

#### Tips for using credit wisely

<table>
<thead>
<tr>
<th>Tip</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Shop for credit** | • Shop around for credit cards with low interest rates and low or no annual fee.  
• Look closely at credit card offers that use the word “free.”  
• Avoid loans and credit cards with high interest rates.  
• Don't take on monthly loan payments you can't afford. |
| **Plan your shopping** | • Don't use your credit card to buy things you really can't afford.  
• Let your budget be your guide.  
• Resist impulse buying! |
| **Set limits** | • Limit your credit card use and don't have too many credit cards. Stay within your credit limit.  
• Avoid having monthly credit card payments that exceed 10% of your monthly net income.  
• Do not let the total amount you charge to your credit cards exceed 20% of your yearly net income. |
| **Keep track** | • Track your credit card charges throughout the month. Save your receipts and check them against your statement.  
• If you have Internet access to your credit card balance, track the charges made on your credit card online, before you even receive the bill in the mail. |
| **Pay on time** | • Pay on time and pay off credit card balances monthly if you can.  
• If you can’t pay off your credit card balance in full, try to pay more than the minimum payment. At the very least, pay the minimum payment every month, on time. |
| **Get help early** | • If you're getting in trouble with debt, get help early. Consider talking with a credit counselor—an experienced professional who can help you get out of debt. |
**Use Credit Wisely**

### Tips for using credit wisely

<table>
<thead>
<tr>
<th>Tip</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Shop for credit**| • Shop around for credit cards with low interest rates and low or no annual fee.  
                             • Look closely at credit card offers that use the word “free.”  
                             • Avoid loans and credit cards with high interest rates.  
                             • Don’t take on monthly loan payments you can’t afford.                                      |
| **Plan your shopping** | • Don’t use your credit card to buy things you really can’t afford.  
                                • Let your budget be your guide.  
                                • Resist impulse buying!                                                                 |
| **Set limits**     | • Limit your credit card use and don’t have too many credit cards. Stay within your credit limit.  
                                • Avoid having monthly credit card payments that exceed 10% of your monthly net income.  
                                • Do not let the total amount you charge to your credit cards exceed 20% of your yearly net income. |
| **Keep track**     | • Track your credit card charges throughout the month. Save your receipts and check them against your statement.  
                                • If you have Internet access to your credit card balance, track the charges made on your credit card online, before you even receive the bill in the mail. |
| **Pay on time**    | • Pay on time and pay off credit card balances monthly if you can.  
                                • If you can’t pay off your credit card balance in full, try to pay more than the minimum payment. At the very least, pay the minimum payment every month, on time. |
| **Get help early** | • If you’re getting in trouble with debt, get help early. Consider talking with a credit counselor—an experienced professional who can help you get out of debt. |
Warning Signs of Too Much Debt Discussion

**Instructor note:**
Photocopy the activity handout on the following page. Have your class brainstorm the warning signs of having too much debt. Then, pass out the activity handout and lead a discussion based on these key points.

### Warning Signs of Too Much Debt

<table>
<thead>
<tr>
<th>Warning Sign</th>
<th>Description</th>
</tr>
</thead>
</table>
| Paying late          | • You’re always late in paying your bills.  
                        • It takes you 60 or even 90 days to cover bills you once could pay monthly.  
                        • You juggle payments to keep creditors satisfied.                                        |
| Bouncing checks      | • Your checking account is frequently overdrawn.  
                        • You can make only minimum payments on your revolving charge accounts.              |
| Racing to deposit    | • You race to deposit your paycheck because you’ve already written checks that require the money in your paycheck.  
                        • A small reduction in your income or an unusual expense would make you unable to pay all of your monthly bills. |
| Maxing out credit    | • Your credit accounts are usually at their maximum limits.  
                        • You apply for more credit cards because you have reached the limit on the ones you have.  
                        • You are spending more than 20% of your take-home pay on credit payments (not counting your rent or mortgage).  
                        • Your loan or credit card balances stay the same or go up each month.              |
| Paying forever       | • You’re still paying off purchases you made a year ago.  
                        • You put off medical and dental visits because you cannot pay the bill.             |
| Ignoring savings account | • You don’t have a savings account, or have stopped making deposits to it.     |
| Fighting with family | • You are always worried about your debts.  
                        • You argue with your spouse or partner over bills.                                       |
| Buying on impulse    | • You sometimes wonder why you made certain purchases.  
                        • You feel free to spend more after clearing up a debt.                                    |
| Using credit for everyday expenses | • You use savings or credit cards to cover everyday living expenses, such as groceries. |
| Ignoring the phone   | • You ignore the telephone or mail to avoid dealing with creditors.                                                                          |
**Warning Signs of Too Much Debt Discussion**

These are signs that you may have too much debt.

<table>
<thead>
<tr>
<th>Warning Sign</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Paying late**         | • You’re always late in paying your bills.  
                          • It takes you 60 or even 90 days to cover bills you once could pay monthly.  
                          • You juggle payments to keep creditors satisfied.  |
| **Bouncing checks**     | • Your checking account is frequently overdrawn.  
                          • You can make only minimum payments on your revolving charge accounts.               |
| **Racing to deposit**   | • You race to deposit your paycheck because you’ve already written checks that require the money in your paycheck.  
                          • A small reduction in your income or an unusual expense would make you unable to pay all of your monthly bills. |
| **Maxing out credit**   | • Your credit accounts are usually at their maximum limits.  
                          • You apply for more credit cards because you have reached the limit on the ones you have.  
                          • You are spending more than 20% of your take-home pay on credit payments (not counting your rent or mortgage).  
                          • Your loan or credit card balances stay the same or go up each month.               |
| **Paying forever**      | • You’re still paying off purchases you made a year ago.  
                          • You put off medical and dental visits because you cannot pay the bill.             |
| **Ignoring savings account** | • You don’t have a savings account, or have stopped making deposits to it.                |
| **Fighting with family**| • You are always worried about your debts.  
                          • You argue with your spouse or partner over bills.                                    |
| **Buying on impulse**   | • You sometimes wonder why you made certain purchases.  
                          • You feel free to spend more after clearing up a debt.                                |
| **Using credit for everyday expenses** | • You use savings or credit cards to cover everyday living expenses, such as groceries.       |
| **Ignoring the phone**  | • You ignore the telephone or mail to avoid dealing with creditors. |
**Topic 4 — Using Credit To Your Advantage**

**Instructor note:**
Consider inviting a non-profit credit counselor to come and talk with class about steps they can take to lower their debts and better manage their finances. Photocopy the activity handout on the next page. Instruct them to fill in the blanks as they listen to the discussion.

**Instructions:**
Have your participants fill in the blanks as they listen to the discussion.

### Tips for Dealing with Debt

<table>
<thead>
<tr>
<th>Tip</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Ask for help** | • Many nonprofit debt counseling centers across the country will advise you for a **low fee** or at no charge. Some lenders will recommend debt counselors to you.  
• Contact a customer service representative at your lender for referrals.  
• Or, contact the **Consumer Credit Counseling Service** in your area. They can often help you work out a repayment plan with your creditors. |
| **Make a written plan** | • Make a list of all your **bills** and their amounts.  
• Figure out when each bill can be paid. |
| **Contact your creditors** | • Contact your credit card company or other creditors to try to get your rate lowered or a different **payment plan** worked out. |
| **Pay more than the minimum** | • Make more than the **minimum monthly** payment on credit cards.  
• You will save lots of money on interest and reduce or eliminate your debt much sooner. |
| **Don’t take on any new debt** | • Stop using your **credit cards**.  
• Say no to offers for credit cards, debt consolidation, and second mortgages.  
• **Cash advances** can be trouble! Only get a cash advance when it is absolutely necessary. Higher interest rates (than you’re paying for card purchases) are usually charged, and the rates are put into effect immediately, without a thirty-day grace period.  
• Most banks also charge a **service fee** based on how much cash you’re withdrawing. The same applies to personalized “checks” some credit card companies may send you. |
| **Minimize rates and fees** | • Be aware of credit card rates and fees. Educate yourself about the annual fees, current interest rates, finance charges, cash-advance fees, and any other fees tied to your card. This knowledge can help you make better decisions about which card to use and how to manage your card.  
• Transfer balances to cards with **lower interest rates**. Find credit cards that offer a low introductory rate (usually for six months), and transfer the balance from your previous credit card to that credit card.  
• Before you take this step, however, make sure that, after the introductory rate has expired, the new card offers the same (or lower) interest rate as your current card. |
| **Don’t give up** | • Reducing your debt is challenging, but don’t stop trying. It’s one of the most **important** things you can do for a better financial future. |
## Tips for Dealing with Debt

**Instructions:**
Fill in the blanks as you listen to the discussion.

### Tips for Dealing with Debt

<table>
<thead>
<tr>
<th>Tip</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Ask for help** | • Many nonprofit debt counseling centers across the country will advise you for a [blank] or at no charge. Some lenders will recommend debt counselors to you.  
• Contact a customer service representative at your lender for referrals.  
• Or, contact the [blank] in your area. They can often help you work out a repayment plan with your creditors. |
| **Make a written plan** | • Make a list of all your [blank] and their amounts.  
• Figure out when each bill can be paid. |
| **Contact your creditors** | • Contact your credit card company or other creditors to try to get your rate lowered or a different [blank] worked out. |
| **Pay more than the minimum** | • Make more than the [blank] payment on credit cards.  
• You will save lots of money on interest and reduce or eliminate your debt much sooner. |
| **Don’t take on any new debt** | • Stop using your [blank].  
• Say no to offers for credit cards, debt consolidation, and second mortgages.  
• [blank] can be trouble! Only get a cash advance when it is absolutely necessary. Higher interest rates (than you’re paying for card purchases) are usually charged, and the rates are put into effect immediately, without a thirty-day grace period.  
• Most banks also charge a [blank] based on how much cash you’re withdrawing. The same applies to personalized “checks” some credit card companies may send you. |
| **Minimize rates and fees** | • Be aware of credit card rates and fees. Educate yourself about the annual fees, current interest rates, finance charges, cash-advance fees, and any other fees tied to your card. This knowledge can help you make better decisions about which card to use and how to manage your card.  
• Transfer balances to cards with [blank]. Find credit cards that offer a low introductory rate (usually for six months), and transfer the balance from your previous credit card to that credit card.  
• Before you take this step, however, make sure that, after the introductory rate has expired, the new card offers the same (or lower) interest rate as your current card. |
| **Don’t give up** | • Reducing your debt is challenging, but don’t stop trying. It’s one of the most [blank] things you can do for a better financial future. |
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: Debt Warning Signs and Tips

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
What is Bankruptcy?

**Instructor note:**
Discuss these key points about bankruptcy with your participants.

Bankruptcy is an option if you owe more than you can pay.

Bankruptcy is a legal process that involves seeking the help of the U.S. Federal Court to release or "discharge" some of your debts and get a fresh start financially. In recent years, bankruptcy filings have reached an all-time high.

Bankruptcy is a serious matter that can have significant, long-lasting consequences. While it may be an option, it's not an easy way out.

Bankruptcy law is complicated and changing. It's essential to get professional counseling about your options.

Declaring bankruptcy may eliminate some of your debts or allow you to repay just a portion of each debt you owe, depending on your personal financial situation and the federal and state laws that apply.

The court may allow you to keep some of your assets in the process.

Bankruptcy usually does not erase child support, alimony, fines, some taxes, and most student loan obligations. If you file, you will have legal and court costs.

---

**Tip!**

Before considering the option of bankruptcy:
- Talk to your creditors to see if they’ll agree to extend your payment schedule, allow you to skip a payment, or some other reasonable repayment alternative.
- Discuss any possible solutions.
- Consult with a qualified credit or debt counselor.
Bankruptcy Fill-in-the-Blank Activity (Instructor Copy)

**Instructor note:**
Photocopy the activity handout on the next page. Instruct your participants to fill in the blanks in the sentences.

**Instructions:**
Have your participants fill in the blanks using the Word Bank.

**Word bank:**
- repay his or her debts
- bankruptcy judge
- banker
- creditor
- save enough money to pay debts
- collateral
- assets
- waive possession of collateral
- take possession of the collateral
- Chapter 13
- Chapter 7
- Chapter 11
- 10 years
- 20 years
- 7 years
- credit score
- credit history
- interest rates

1. In a typical bankruptcy scenario, a debtor claims the inability to ____ repay his or her debts ____.
2. A _______bankruptcy judge_______ decides whether or not a debtor may declare bankruptcy.
3. If the debtor has defaulted on a loan secured by _______collateral_______ such as a car or house),
   the creditor may still be able to _______take possession of the collateral_______ even if
   the debt was discharged.
4. Two of the most common types of bankruptcy are _______Chapter 13____ and _______Chapter 7____.
5. A bankruptcy will stay on your credit history for up to _______10 years____.
6. Bankruptcy may lower your _______credit score_______ causing lenders to charge you higher
   interest rates in the future.
Bankruptcy Fill-in-the-Blank Activity

Instructions:
Fill in the correct word or phrase in each sentence using the Word bank.

Word bank:
- repay his or her debts
- bankruptcy judge
- banker
- creditor
- save enough money to pay debts
- collateral
- assets
- waive possession of collateral
- take possession of the collateral
- Chapter 13
- Chapter 7
- Chapter 11
- 10 years
- 20 years
- 7 years
- credit score
- credit history
- interest rates

1. In a typical bankruptcy scenario, a debtor claims the inability to ____________________________

2. A ____________________________ decides whether or not a debtor may declare bankruptcy.

3. If the debtor has defaulted on a loan secured by ____________________________ such as a car
   or house), the creditor may still be able to ____________________________ even if the debt was discharged.

4. Two of the most common types of bankruptcy are ____________________________ and
   ____________________________.

5. A bankruptcy will stay on your credit history for up to ____________________________.

6. Bankruptcy may lower your ____________________________ causing lenders to charge
   you higher interest rates in the future.
Instructor note:
At this point in the class, consider using this recommended library article listed below as a discussion resource or a takeaway for your participants. You can find this and other library articles at the end of this topic.

Recommended Article: About Bankruptcy

Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
Lesson Summary

Instructor note:
Summarize this lesson by reviewing these key points with your participants.

Key points from the Dealing with Debt lesson:

• Borrowing money gives you financial flexibility but if you’re not carefully you may buy more things and spend more than you would otherwise.

• The key to financial freedom is living within your means. That means not borrowing more than you can comfortably afford to repay.

• If the amount you owe others is at an uncomfortable level, it is important to consider how to begin eliminating some of your debt.

• Owing people more than you can repay is painful. And it can negatively affect your money situation for years.
Topic 4 — Using Credit To Your Advantage

Topic Summary

_Instructor note:_
_Summarize this topic by reviewing these key points with your participants._

**Key points from the Using Credit to Your Advantage topic:**

- **Having credit means having the ability to borrow money when you need it.**
- **Credit can give you the option of buying something today and the flexibility to act on major purchases and life opportunities that you wouldn't be able to otherwise.**
- **To reduce your cost of credit, shop for a credit card with a low annual fee and a low interest rate.**
- **Pay off your purchases as quickly as you can.**
- **If you apply for a loan, remember to look for a responsible lender—an established company with a good reputation. Comparison shop and understand the agreement before you sign.**
- **To keep track of where you stand with your credit, it’s important to know your credit score and study your credit report.** These are tools that lenders, landlords, employers and others may use to determine how reliable and trustworthy you are.
- **If you want to improve your credit rating, it’s up to you to take action.** One of the most important ways is to always pay your bills on time.
- **The key to financial freedom is living within your means.** Your debt should be less than 20% of your yearly net income and your credit card payments should be less than 10% of your monthly net income.
- **One of the major risks of credit is borrowing more than you can afford to repay.**
- **To avoid debt problems, use your credit wisely.**
- **If you’re in trouble with debt, take action early.** If you’re having problems making monthly payments, call your lender immediately and work with them to determine your next steps.

**Additional Activities**

*These activities are designed to extend the new concepts presented in the Protect Yourself Financially Topic. Use these or similar activities to give participants an opportunity to apply what they have just learned to real-life scenarios.*

1. Obtain a copy of your credit report for free from annualcreditreport.com. Review it for accuracy. Contact your lender immediately if you find any errors.
2. Review your current debt level and make a plan to reduce your debt.
3. If you have high interest rate credit cards, call the company to see if they can give you a better deal. Meet with your banker or contact other credit cards companies to discuss possible reduced rates and fees.
4. Make a plan to pay-off high interest credit card(s).
5. Talk with your local consumer credit counseling agency to learn more about bankruptcy.
Appendix

Library Articles & Additional Topic Resources
Use these library articles as a discussion resource or a takeaway for your participants. Remember, the online Hands on Banking® program has dozens of additional library articles that you can use and distribute for this and other topics. Visit www.handsonbanking.org to browse all the available articles.
About Credit Scores

A credit score is a three-digit number that’s a shorthand way to express the raw data in your credit report.

Your credit score can affect your ability to get loans, including car loans and home mortgages. Future jobs and insurance premiums can also be impacted by your credit score.

The three major credit bureaus in the United States, Experian, Equifax, and TransUnion, each calculate consumer credit scores. They provide the scores to consumers for small fee, usually ranging from five to seven dollars. Because their calculation models differ somewhat, a consumer’s score may vary depending on which bureau does the calculation. One common method used to calculate credit scores is called FICO, which is an abbreviation for the company that developed the model: Fair Isaac and Company.

When you apply for credit, most lenders run, or “pull,” your credit report, and may obtain a credit bureau score. Scoring systems were designed to help lenders speed up their loan review process and accurately determine their risk in lending to you. Scoring systems have been used since the 1950s by retail merchants, credit card companies, insurance companies, and banks for consumer lending. For the past several years, credit scoring has also been used by mortgage lenders.

Lenders use the results of the credit bureau score to determine specific reasons for approving or not approving your loan. The scoring process only considers the information in your credit file; it does not consider your income, savings, or the amount of your down payment for a mortgage. When your credit report prints in your lender’s office, your credit bureau score is displayed. Your score can be anywhere between the high 300 and the mid-800’s. Research studies by lenders have shown that borrowers with scores above 680 are more likely to make their payments on time. Borrowers with scores below 600 are more likely to be higher risk.

Points are awarded or deducted based on factors such as how long you have had credit cards, whether you make your payments on time, and if your credit balances are near maximum. Some of the things that affect your credit score are:

- Delinquencies (failure to make loan payments on time)
- Too many accounts opened within the last 12 months
- Short credit history
- Balances on revolving credit near the maximum limits
- Information about you in public records, such as tax liens, judgments, or bankruptcies
- No recent credit card balances
- Too many recent credit inquiries
- Too few revolving accounts
- Too many revolving accounts
About Credit Scores (continued)

For a higher credit score:

- Pay your bills on time
- Keep credit balances low
- Apply for and open new accounts only as needed

Since length of credit history is a factor in your score, if you’re closing credit card accounts, keep the card you’ve had the longest. If you have a credit card you’re not using, check your account occasionally to make sure there is no fraudulent activity. Use your card at least once every six months or so. Otherwise, it will be listed on your report as inactive and won’t be factored into your credit score.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at [wellsfargo.com](http://wellsfargo.com) or any Wells Fargo store.
Your Credit Report

What is a credit report?
A credit report is a document issued by an independent credit reporting agency that contains information concerning an individual’s credit history and current credit standing.

How to obtain your credit report
The three largest credit reporting agencies in the United States are Equifax, Experian, and TransUnion. A federal law called the Fair Credit Reporting Act allows you to receive one free copy of your credit report from each of these three companies once a year.

To obtain a free credit report

Online:
www.annualcreditreport.com

Toll-free call:
(877) 322-8228

Request by mail:
Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

If you need more than one credit report in a year from one or more of these credit bureaus, you may be charged. To request additional credit reports, contact one of the following agencies.

To request additional credit reports

Equifax Information Services
www.equifax.com

Experian Consumer Assistance
www.experian.com

TransUnion
www.transunion.com
Your credit report (continued)

How to Read Your Credit Report
A sample credit report appears below. Here’s how to read it:

• **Section A** shows information about you—your name, current and previous address, Social Security number, date of birth, and other information to identify you.

• **Section B** is called Public Record Information. In this area, you’ll see any information that is listed about you in the records of local, state, or federal courts. In this example you see a bankruptcy.

• **Section C** shows collection agency account information. If you fail to pay back one of your creditors, they may hire a collection agency to contact you. This is a company that specializes in collecting money to pay off debts.

• **Section D** shows your credit history. This is a list of all the places where you have credit—or used to have credit. These are called your accounts. The credit history section is divided into twelve columns.
  - The first column shows the names of your lenders. In this example you see a car dealership, a credit card company, and a department store.
  - The second column shows your account numbers.
  - The third column shows who is responsible for payment. On most credit reports, you’ll see an “I”—meaning that an individual is responsible. Or you’ll see a “J” for joint—meaning that you and another person are responsible for paying.
  - The fourth column shows the month and year the account was opened.
  - Column 5 shows the number of months the payment history for this account has been reported.
  - In column 6, you’ll see the date that the last payment, change, or other activity was made in this account.
  - In column 7, you’ll see the highest amount that has been charged to this account, or the credit limit, if there is one.
  - Column 8 shows the amount of your monthly payments—if this is an installment loan.
  - Column 9 shows the amount you still owe as of the date of this report.
  - Column 10 shows any amount that is past due. This means money that you’re late in paying to your lender.
  - Column 11 is called Status. It contains a letter and a number. The letter describes what kind of account it is. “I” means installment. This means you make a loan payment every month for a certain period of months. “R” means revolving. Credit cards are called revolving credit because as you pay the money back, your credit becomes available for you to use again and again. “O” means open. This means that the lender decides to give you credit and then bills you for what you borrow.
  - What do the numbers mean? “1” means the account is paid as agreed; “2” means the account is 30 or more days past due; “3” means the account is 60 or more days past due. In this example, the car loan is I4. This means it’s an installment loan that’s 90 or more days past the payment due date. Not good!
  - Finally, column 12 shows the date on which the information for this account was last updated.
Your credit report (continued)

- **Section E**, the last section of the credit report, is called Inquiries. This is a list of the companies that have requested a copy of your credit report for their review.

---

**Sample Credit Report**

Credit Reporting Agency  
R.O. Box 1234  
City, State Zip  
(800) 777-1234

### Personal Sample Credit File

**Your name**  
Social Security #: 000-00-0000  
Date of Birth: March 15, 1972  

**Previous address(es)**

1234 Oak St., Anytown CA 92111  
4567 Grand Ave., Hometown, IL 65432

**Last Reported Employment:** Truck Driver

**Public Record Information**

Bankruptcy filed 3/2004: Any District Court: Case or other ID number-000AB0000;  
Liabilities $21,765: Personal; Individual; Discharged; Assets $995

**Collection Agency Account Information**

Any Collection Agency 09/04; Assigned 11/04 to Any Collection Agency; Client-Top Department Store; Amount - $678; Paid collection account

**Credit Account Information**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Account Number</th>
<th>Date Opened</th>
<th>Score</th>
<th>Date of Last Activity</th>
<th>High Credit</th>
<th>Term of Debt</th>
<th>Amount Due</th>
<th>Date of Last Payment</th>
<th>Status</th>
<th>Case Requested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car Dealership</td>
<td>45020099</td>
<td>05/05</td>
<td>24</td>
<td>11/02</td>
<td>$4200</td>
<td>$295</td>
<td>$750</td>
<td>$150</td>
<td>IA</td>
<td></td>
</tr>
<tr>
<td>Credit Card Company</td>
<td>00076</td>
<td>07/08</td>
<td>45</td>
<td>05/08</td>
<td>$3000</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>K1</td>
<td></td>
</tr>
<tr>
<td>Department Store</td>
<td>000432</td>
<td>06/01</td>
<td>8</td>
<td>10/02</td>
<td>$750</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>O1</td>
<td></td>
</tr>
</tbody>
</table>

**Companies that Requested Your Credit File**

06/12/01 Department Store  
02/17/04 Credit Card Company

---

**Correcting reporting errors**

It’s important to check your credit report for accuracy. If you think that information on your report is incorrect or out of date, contact the credit reporting agency and ask for an explanation. Requesting changes to your credit report is easy in some cases, and more difficult in others. In general, the Identification section and the Collection Accounts section are the easiest to change, while the Public Records section is the most difficult.
Your credit report (continued)

As you check your reports for errors, keep in mind:

- Credit bureaus process millions of pieces of information every year and sometimes errors occur as a result. You may find information on your report about someone with a similar name or address to yours. If they have poor credit, it may hurt your ability to get a loan or credit.
- Late payments can hurt your credit score. If your report shows a late credit card payment and you know you pay your bills on time, contact the credit bureau to dispute it.
- The Public Records section shows tax liens, bankruptcies and default judgments against you. These kinds of items are extremely damaging to your credit score, so be sure to challenge errors right away.

What kind of errors should you check for?
Confirm everything in your report! Start by checking whether your name and social security number are correct; then review every item on every account. Be thorough because any errors could affect your rating. Pay special attention to these items:

- Incorrect former addresses: If the report shows an address where you never resided, contact the credit bureau. This could mean that someone at that address fraudulently claimed to be you.
- Accounts you didn't open: If there are credit accounts listed that you didn't open, contact the credit bureau immediately. This could be a sign that you've been the victim of identity theft.
- Mistakes in your history: Check each credit account to see if it accurately shows your history. For example, if a credit card account is listed as having been 60 days past due, but you've always paid your bills on time, contact that creditor and request that they fix the error.

Dealing with past credit problems
If you have late payments on your credit report for reasons such as an illness or temporary unemployment, provide a written explanation to the lender explaining why your credit was poor for a period of time. A lender may not expect you to have a spotless credit history, but most expect you to have taken care of your credit problems before you ask for a loan. If you currently have credit payments that are past due, pay them now in order to improve your credit picture. Once they are paid, work on developing a record of making payments on time for at least the past year to improve your credit rating even more.

Learn more from the FTC

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.
About Credit Cards

Types of cards

There are basically three types of credit cards:

- **Bank cards** are issued by banks. Examples include Visa®, MasterCard® and Discover® Card.
- **Travel and entertainment (T&E) cards**, for example, American Express® and Diners® Club
- **House/Private Label cards** are good only in one chain of stores. Examples include national and local department stores, oil and phone companies.

No one card is right for everyone. As a general rule, the right card for you is one that's accepted where you shop and charges you the least amount of money (for example, in interest and fees) for the services you use. The terms and conditions for credit cards vary, so it's important to educate yourself about the costs for any credit card offer you're considering. Be sure to carefully read the terms and conditions, legal disclosures, and credit card agreement.

How bank credit card processing works

When you make a purchase using a bank credit card, the cashier usually swipes your credit card through a reader that automatically phones in the information stored on the black magnetic stripe on the back of your card. This process allows the credit card company to verify information such as:

- Merchant identification
- Valid card number
- Expiration date
- Available credit limit
- Card usage

Once the sale is approved, the bank credits the account of the merchant and records the charges to be billed to you, the cardholder, at the end of the billing period, which is typically monthly. You then pay the bank either the entire balance or in monthly installments, with interest.
About credit cards (continued)

**Shopping for credit cards**
To be a smart money manager, compare credit card offers just as you would car loans or home mortgages. There can be a lot of features and fees to compare.

**Here are some tips to help you get started:**

- **Do some research.** There are plenty of places, both online and offline, where you can read about credit card offers and how they compare. Since rates and plans change often, call the companies with the offers you're interested in. Confirm what they offer and ask about plans that might work for you.

- **Make a list.** Make a list of credit card features that fit your financial needs. Rank the features according to how you plan to use the card and pay your monthly bill.

- **Review the plans.** Review all of the information you've gathered on different plans. Pay special attention to the annual percentage rate (APR). You want a low rate, but not necessarily the lowest. This is because, depending on your lifestyle and payment habits, you might benefit more from a card that offers cash rebates, discounts, or frequent flier miles—even though it may have a slightly higher rate than another card option.

- **Compare plans.** If you already have a credit card, be sure that you're making a good move before you swap cards. If you are a current cardholder and have a good credit rating, see if the institution that issued your card will lower your current rate.

**Canceling credit cards**
If you want to cancel a credit card, contact the issuer of the card directly and request their instructions for notifying them of your intent to cancel. Simply not using the card will not cause it to cancel.

**Truth in Lending Act**
Enacted in 1968, this federal law says that creditors have to give consumers complete and accurate information about credit costs and terms. The Truth in Lending Act requires credit card companies to provide consumers with the following information:

- Finance charges in dollars and as an annual percentage rate (APR).
- Credit issuer or company providing the credit line.
- Size of the credit line.
- Length of the grace period, if any, before payment must be made.
- Minimum payment required.
- Annual fees, if applicable.
- Fees for credit insurance (if any), which pays off your loan if you die before the debt is fully repaid.
About credit cards (continued)

Variable vs. fixed-rate credit cards
Whether the credit card plan uses a variable- or fixed-rate in charging interest can have a significant effect on what you pay to use your card.

Variable-rate plans may offer a lower interest rate than fixed, but keep in mind that the interest rate can go up or down. Credit card companies offering variable-rate plans adjust the interest rate you pay based on changing economic statistics issued by the federal government.

With a fixed-rate plan, you have the advantage of knowing what your rate will be. The Truth in Lending Act requires lenders to provide at least 15 days notice before raising the rate, and in some states, even more notice is required.

Some financial experts argue that because a fixed-rate can be increased with only a 15-day notice, this plan is not that different from a variable-rate plan, which can change at any time. They advise looking closely at both plans. If you do choose a variable-rate card, check to see if there are limits on how high or how low your interest rate can go.

About “pre-approved” credit card offers
Be cautious about any “pre-approved” card offers you get in the mail. Sometimes the fine print will show an extremely high interest rate. Some offers may state that, by accepting the offer, you agree to transfer the entire balance of your other credit-card account to the new, high-interest account. Some offers may suggest this balance transfer, although they don’t require it.
Shred any offers you don’t want before you toss them into the garbage. This will help prevent someone from stealing it and trying to obtain credit in your name, which is a crime called identity theft.

For more information on Credit Card Regulations, please visit www.federalreserve.gov/consumerinfo/consumercredit.htm

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.
Credit Card or Debit Card: Which to Use?

Both credit cards and debit cards provide a very convenient way to shop without paying by cash or check. Both are accepted at a wide variety of places worldwide. How should you decide which to use? Compare the following factors.

<table>
<thead>
<tr>
<th>Credit card</th>
<th>Debit card</th>
</tr>
</thead>
<tbody>
<tr>
<td>You receive a bill at the end of the month.</td>
<td>Money is deducted directly from your checking account.</td>
</tr>
<tr>
<td>You pay interest on any unpaid balances.</td>
<td>No interest payments.</td>
</tr>
<tr>
<td>May allow you to buy something today rather than having to wait. But remember, you always have to pay the money back!</td>
<td>You only buy what you know you can afford from the cash you have in your checking account. You may have to wait to make a purchase.</td>
</tr>
<tr>
<td>If you notice incorrect charges on your credit card statement (for example double billing or an incorrect charge) federal law limits your liability (that is, the amount you stand to lose) to $50 if you send in a written request for an investigation within 60 days.</td>
<td>If you notice fraudulent use of your debit card, federal law limits your liability (that is, the amount you stand to lose) to $50 if you notify the bank within two days. After two days, your liability increases to $500, and up to your entire account balance after 60 days. Some banks voluntarily offer their customers better liability limits, sometimes for a fee. Ask at your bank.</td>
</tr>
<tr>
<td>The items you purchase are typically insured. A good choice for very large or fragile items or objects that will be delivered to you.</td>
<td>The items you purchase are typically not insured.</td>
</tr>
<tr>
<td>If you pay your bills on time and in full, you build a good credit history and increase your ability to borrow in the future.</td>
<td>If you avoid overdrawing your account, you strengthen your reputation with the bank as a good money manager.</td>
</tr>
<tr>
<td>Consider credit cards for larger, more lasting purchases. For example, if you buy something that’s going to last several years, making credit card payments over several months may make sense.</td>
<td>Probably makes sense for smaller, everyday purchases as a convenient substitute for cash or checks. Helps you avoid too much credit card debt!</td>
</tr>
</tbody>
</table>

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at [wellsfargo.com](http://wellsfargo.com) or any Wells Fargo store.
Managing Credit Card Finance Charges

Credit cards can be a valuable financial tool. They provide a convenient way to pay for things, feature built-in protections for your purchases, and can help you to build a good credit rating. But using credit cards can also cost you money in finance charges and fees.

The easiest way to avoid paying finance charges on credit card purchases is to pay your statement balance in full every month. That way, your account will have a zero balance and no finance charges will be assessed on it. If you’re unable to pay off your entire balance, you can save on finance charges another way by paying off the debt as quickly as possible. Pay at least the minimum amount as indicated on your statement, but pay more than the minimum whenever possible.

Pay on time every time and do not exceed your credit limit. Some credit card issuers will charge a default rate (a higher rate of interest) if a cardholder misses two minimum monthly payments.

Understanding how creditors calculate interest can also help you to manage your costs. Here is information that can help:

**Compare the APR**
When you want to determine which credit card will likely cost you the most, the Annual Percentage Rate (APR) is a quick way to make a first comparison. The APR takes into account a loan's interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost of the loan. So look for a credit card with the lowest APR you can find. Keep in mind that if a credit card has a variable rate, that means it can change throughout the year. Read your disclosure statement or talk to your lender to make sure you understand the details.

**Understand the Fees**
In addition to comparing APRs, look carefully at optional fees for items such as late payments and cash advances.

**Know the Periodic Rate**
The periodic rate is the interest rate described in relation to a specific period of time. For example, the monthly periodic rate is the cost of credit per month; the daily periodic rate is the cost of credit per day. If a creditor charges interest on a daily basis, the cost of credit per day is the APR divided by 365. An APR of 18% would therefore equal a Periodic Rate of about 0.05%.
Managing credit card finance charges (continued)

**How is your interest calculated?**
After you know the APR and Periodic Rate, look at the method the creditor uses to calculate the interest you owe. This can make a big difference in how much interest you’ll pay. Here are four common methods:

**Past Due Balance**
With this method, no interest is charged if you make payment in full within the grace period defined in your cardmember agreement (usually 25–28 days). If you don’t pay in full, interest is charged on the unpaid amount, and then added to your next bill.

**Average Daily Balance**
This is the most common method used. Your credit card issuer calculates your balance every day in the billing cycle. Each day, they add new charges and subtract payments from your existing balance. They then add all daily balances together and divide by the number of days in the billing cycle to get the average daily balance. Finally, they multiply the average daily balance by the periodic rate to determine the finance charge.

**Two-Cycle Average Daily Balance**
With this method, the average daily balance is calculated from two billing cycles rather than one. The finance charges you pay are typically higher than with the single cycle calculation.

**Adjusted Balance**
Interest is charged on the opening balance of your account minus any payments made during the billing cycle. Since your new purchases are not included (which would raise your balance) and your payments are included (which lowers your balance), this means that you’ll usually pay less in interest than you would with other methods.

**Previous Balance**
With this method, the card issuer charges interest on the opening balance of your account. They don’t subtract any payments received during the billing cycle. This means that you’ll pay more interest compared to the Adjusted Balance method, but less than you would with either of the Average Daily Balance methods.

For more information on Credit Card Regulations, please visit [www.federalreserve.gov/consumerinfo/consumercredit.htm](http://www.federalreserve.gov/consumerinfo/consumercredit.htm).

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at [wellsfargo.com](http://wellsfargo.com) or any Wells Fargo store.
Card Safety Tips

Here are some security tips for using credit, debit, and ATM cards safely:

- Report lost or stolen cards immediately to the company that issued you the card.
- To help you respond quickly in case your cards or ID are lost or stolen, make a chart like this one. Be sure to store the list in a safe place. Never carry it with you.

<table>
<thead>
<tr>
<th>Credit card name</th>
<th>Financial institution</th>
<th>Account number</th>
<th>24-hour customer service #</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Sign your card on the signature panel as soon as you receive it.
- Protect your cards as if they were cash—never let them out of your possession or control.
- Do not include your card number in an email.
- Do not give out your card number over the phone unless you initiated the call.
- Be sure that you get your card back after every purchase.
- Don’t leave your credit cards in your car’s glove compartment. A high percentage of credit card thefts are from car glove compartments.
- Don’t lend your cards—credit, debit, or ATM—to anyone. You are responsible for their use. Don’t let your credit cards be used by others, even family and friends.
- Choose a PIN that is easy for you to remember but difficult for others to guess. Don’t use any numbers or words that appear in your wallet (name, birth date, phone number, etc).
- Never tell anyone your PIN. No one from a financial institution, the police, or a merchant should ask for your PIN. You are the only person who needs to know it.
- Don’t volunteer any personal information when you use your cards, other than by displaying personal identification as requested by a merchant.
- Never write down your personal identification number (PIN)—memorize it. Don’t write down your account number and PIN and carry it with you. If your wallet or purse is stolen, someone else could have access to your money.
- When typing in your pin, cover the keypad so others can’t see.
- When selecting a PIN, avoid picking a number that is easy for others to guess—for example, your name, telephone number, date of birth, or any simple combination of these.
Card safety tips (continued)

- Think about your personal safety when using an ATM. Because most ATMs give out cash and many accept deposits, it makes sense to be alert and aware of your surroundings no matter where or when you use an ATM. When you're by yourself, avoid using an ATM in out-of-the-way or deserted areas. Use ATMs located inside banks or supermarkets where other people are around. Use ATMs in well-lit, public areas.
- If it looks like someone has tampered with the ATM equipment, don’t use it. (This could mean that a criminal has attached a “skimmer” to the ATM to steal your financial information.) If a suspicious person offers to help you use the ATM, refuse and leave.
- Put your money and ATM card away before you leave the ATM. Always avoid showing your cash. Always verify that the amount you withdrew or deposited matches the amount printed on your receipt.
- Always make sure that sales vouchers are for the correct purchase amount before you sign them.
- Always keep copies of your sales vouchers, credit card, and Automated Teller Machine (ATM) receipts.
- Always check your billing statement to make sure the purchase amounts are correct and to ensure there are no suspicious charges. Contact your service provider immediately if you see a charge you don’t recognize.
- Always put disputes regarding your billing statements in writing immediately upon becoming aware of the disputed item; otherwise, you may be held legally responsible for the entire amount of the disputed item. Many credit card issuers have specific instructions for notifying them of a billing error dispute. Read your credit card agreement and billing statements carefully for information regarding dispute notification requirements. You may also contact your credit card issuer to ask about their dispute notification requirements.
- Shred or destroy your ATM receipts before you throw them away.
- Keep your cards away from magnets; these can erase the information stored on your card.
- If you receive a replacement card, destroy your old card. Destroy cards for cancelled accounts.
- Shop with merchants you know and trust. Make sure internet purchases are secured with encryption to protect your account information. Look for “secure transaction” symbols.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.
Loan Comparison Worksheet

If you’re planning to apply for a loan, remember to shop for your lender—and your loan. Take some time to comparison shop. Interview lenders. Ask them questions about the choices they offer and what they will cost you.

When you compare loans, it can be hard to see which one will cost you the least. To make it easier, lenders are required to tell you a loan’s annual percentage rate, or APR. The APR is a number that combines the interest rate, the term, and the fees to show you the total cost of the loan. The lower the APR, the lower the total cost. Remember, the loan with the smallest monthly payment may not have the lowest cost overall.

Discuss the costs and the options with your lender. Carefully study the monthly payment and the APR. Then decide if you can really afford the loan. You want to be sure the monthly loan payment is an amount you can afford, but minimize the total cost of your loan if you can.

Use the worksheet below to compare the terms of different loans you’re considering. Please note that “points” are fees charged by the lender. One point is equal to 1% of the loan amount.

<table>
<thead>
<tr>
<th>Loan 1</th>
<th>Loan 2</th>
<th>Loan 3</th>
<th>Loan 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan amount $</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate %</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td># of points</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td># of monthly payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly payment amount $</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total interest paid $</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of points $</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total amount paid $</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.
Managing Your Credit

Tips for using credit wisely

- Avoid loans and credit cards with high interest rates.
- Don’t take on monthly loan payments you can’t afford.
- Stay within your credit limit. Track your credit card charges throughout the month.
- If you have Internet access to your credit card account, track your account activity online, even before you receive the bill in the mail.
- Don’t use your credit card to buy things you really can’t afford. Let your budget be your guide.
- If you’re getting in trouble with debt, get help early. Consider talking with a credit counselor—an experienced professional who can help you get out of debt.
- Shop around for credit cards with low interest rates and low or no annual fee.
- Look closely at credit card offers that use the word “free.” Usually, everything has a price.
- Resist impulse buying!
- Pay on time and pay off credit card balances monthly if you can. If you can’t pay off your credit card balance in full, try to pay more than the minimum payment. At the very least, pay the minimum payment every month, on time.
- Avoid having monthly credit card payments that exceed 10% of your monthly net income.
- Do not let the total amount you charge to your credit cards exceed 20% of your yearly net income.
- Keep track of what you buy with your credit card. Save your receipts and check them against your statement.
- Don’t go wild! Limit your credit card use and don’t have too many credit cards.
Managing your credit (continued)

Be careful when selecting a lender
Predatory lenders try to cheat borrowers through fraud or deception. Watch out for these nine predatory lending practices:

1. **Encouragement to include false information.** If a lender has changed any of your income or expense information or leaves your income blank, do not sign the loan application.

2. **Blank loan documents.** Never sign a blank loan document or work with a lender who asks you to.

3. **“Bait and switch” sales tactics,** when a lender makes promises in order to make the sale, but then backs out on the promises after the sale. To avoid this, it’s critical to carefully read and understand the agreement before you sign. Question anything in the document that is not consistent with what you were told. Don't sign the agreement if anything in it is unclear or not as promised.

4. **Equity stripping.** Let's say you don't have much monthly income but you have built up equity in your home. If a lender encourages you to inflate your income on your application form to help get the loan approved, watch out! A predatory lender doesn't care if you can't keep up with the monthly payments, because as soon as you can't, the lender will foreclose—taking your home and stripping you of the equity you have spent years building.

5. **Loan flipping.** This is when a lender persuades a borrower to repeatedly refinance a loan, often within a short time frame, charging high points and fees each time. This is not in your best interest because it costs you money and postpones the loan principal from being reduced.

6. **A high fee for bi-weekly payments.** Some lenders will offer you the option to pay your loan bi-weekly. Although this type of payment plan can reduce the finance charge and length of a loan, predatory lenders may charge you $1,000 for the “privilege” of paying biweekly. In reality, such accounts can often be set up for free or a few hundred dollars at most.

7. **Required deed signing.** If you are behind on your mortgage payments, a predatory lender may offer to help find new financing. But first you are asked to deed your property over to the lender as a temporary measure to prevent foreclosure. But then the promised loan never comes, and you no longer own your home.

8. **Advertisements promising “No Credit? No Problem!”** These are often warning signs of scams. Consumers responding to such ads are guided through a phony application process and may even receive fake loan approval documents. To receive the approved loan, they are told to pay money up-front for fees or services—and instead end up losing their money.

9. **Promises to refinance the loan to a better rate in the future.** No one can make you that promise. Instead, ask what you can do now to get a better rate. If you're working with a local bank, for example, there may be a rate discount for making automatic monthly payments from your checking account.
Managing your credit (continued)

Be careful when selecting a lender (continued)

• Don’t take the first loan you are offered; shop and compare.
• Don’t give in to sales pressure. Don’t be rushed. Remember, you can always say you have to check with someone else before you can make a decision.
• Don’t sign a blank document or anything the lender promises to “fill in later.”
• Don’t sign anything you don’t like or understand, even if they cancel the loan offer.
• Ask a lot of questions.
• Always check the numbers!
• Remember, a low monthly payment isn’t always a good deal. Look at the total cost of the loan.

If the bank says no to your loan
It often takes a few days for a decision to be made about your loan application. However, a bank legally has up to 30 days to respond. If a lender turns you down, do not take it personally; lenders cannot grant or deny credit based on personality.

Here are few possible reasons a loan may not be granted:

• Irregular employment.
• Not enough income to repay the loan.
• Poor credit history (slow repayment of other loans).
• Lack of credit history.
• Too short a time at residence.
• Insufficient down payment.

Here are steps you can take to have the bank reconsider your loan request:

• Find out if all sources of income were considered in evaluating your application.
• Pay off some of your existing debt.
• Find a reliable co-signer who is acceptable to the bank.
• Offer to make a larger down payment if possible.
• Establish credit by applying for a credit card with a low credit limit.
• If you have no credit history, find out if alternative payment history could be considered, for example, rent, or utility bills.
• Contact the credit bureau used by the bank to find out if there are any errors in the information they provided the bank.
Managing your credit (continued)

How to repair your credit history

1. Order a copy of your credit report. To obtain a free credit report you can order online www.annual-creditreport.com. When you receive your report review it and make sure it is accurate.

2. Challenge incorrect or outdated information on your credit report. Ask the credit bureau (Equifax, Experian or TransUnion) in writing to remove the incorrect information. The bureau must then contact the creditor that reported the incorrect information. If the creditor does not verify the negative item within 30 days, the bureau must remove the item and send you a corrected report. If the creditor states that the information is correct, you have the legal right to insert a 100-word statement in your credit report explaining why you dispute this information.

3. Pay your current loans on time and as agreed.

4. Contact your creditors and ask if they’re willing to arrange a new payment schedule. Stress your desire to make full payment over time.

5. If you have had past credit problems, share this information with the bank when you apply. Have a letter prepared that you can include with your application explaining any extraordinary circumstances or reasons for past credit problems.

6. Contact a credit counseling service in your area. (Check the White Pages in your phone book.) They can often help you work out a repayment plan with your creditors.

For more information on Credit Card Regulations, please visit www.federalreserve.gov/consumerinfo/consumercredit.htm

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.
Debt Warning Signs & Tips

Twenty warning signs of financial trouble

1. You’re always late in paying your bills.
2. Your checking account is frequently overdrawn.
3. You race to deposit your paycheck because you’ve already written checks that require the money in your paycheck.
4. A small reduction in your income or an unusual expense would make you unable to pay all of your monthly bills.
5. Your credit accounts are usually at their maximum limits.
6. You apply for more credit cards because you have reached the limit on the ones you have.
7. You are spending more than 20% of your take-home pay on credit payments (not counting your rent or mortgage).
8. Your loan or credit card balances stay the same or go up each month.
9. You can make only minimum payments on your revolving charge accounts.
10. It takes you 60 or even 90 days to cover bills you once could pay monthly.
11. You don’t have a savings account, or have stopped making deposits to it.
12. You are always worried about your debts.
13. You argue with your spouse or partner over bills.
14. You’re still paying off purchases you made a year ago.
15. You use savings or credit cards to cover everyday living expenses, such as groceries.
17. You juggle payments to keep creditors satisfied.
18. You ignore the mail or telephone to avoid dealing with creditors.
19. You put off medical and dental visits because you cannot pay the bill.
20. You feel free to spend more after clearing up a debt.
Reducing your debt
If the amount you owe others is at an uncomfortable level, you're not alone. Millions of Americans have spent too much on credit and then learned—the hard way—how difficult it can be to pay it off. If you find you're having difficulty making payments, here are some tips for lowering your debt and getting your finances under control:

- **Contact your creditors.** Contact your creditors and discuss payment schedules that you can afford. Try to get your rate lowered or a different payment plan worked out. Creditors will want to work with you to find a payment solution. Follow-through on your commitment by making your payments on time, as agreed.

- **Don't take on any new debt.** Stop using your credit cards. Say no to offers for credit cards, debt consolidation, and second mortgages.

- **Make a written plan.** Make a list of all your bills and their amounts. Review your budget and determine the total amount you can afford to repay each month. Set a date when each bill can be paid. Remember, even though it pays to get out debt quickly, keep sufficient savings to cover several months of living expenses in case of an emergency.

- **Pay off your highest interest rate debts first.** To get out of debt more rapidly, first pay down the balances of loans or credit cards that charge the highest interest, while paying at least the minimum due on your other debts. Once the highest interest debt is paid off, start on the next highest, and so on.

- **Make more than the minimum monthly payment on credit cards.** You will save lots of money on interest and reduce or eliminate your debt much sooner.

- **Be aware of credit card rates and fees.** Educate yourself about the annual fees, current interest rates, finance charges, cash-advance fees, late fees, penalty pricing and any other fees tied to your card. This knowledge can help you make better decisions about which card to use and how to manage your card.

- **Cash advances can be trouble!** Only get a cash advance when it is absolutely necessary. Higher interest rates (than you’re paying for card purchases) are usually charged, and the rates are put into effect immediately, without a 30-day grace period. Most banks also charge a service fee based on how much cash you’re withdrawing. The same applies to personalized “checks” some credit card companies may send you.

- **Transfer balances to cards with lower interest rates.** Find credit cards that offer a low introductory rate (usually for six months), and transfer the balance from your previous credit card to that credit card. Before you take this step, however, make sure that, after the introductory rate has expired, the new card offers the same (or lower) interest rate as your current card.

- **Ask for help.** Many nonprofit debt counseling centers across the country will advise you for a low fee or at no charge. Contact the Consumer Credit Counseling Service in your area. (Check the White Pages in your phone book.) They can often help you work out a repayment plan with your creditors.

- **Don’t give up.** Reducing your debt is challenging, but don’t stop trying. It’s one of the most important things you can do for a better financial future.
Debt warning signs and tips (continued)

How different debt-reduction strategies compare
Where will you find the money to pay down your debts, especially high interest credit cards? There are advantages and disadvantages to tapping different sources of funds. Here's a comparison of four possible strategies:

**Stop spending**
*Advantages:* This is the surest strategy for climbing out of debt as quickly as possible. You'll have more money available for paying off your debts and learn to live within your means.
*Disadvantages:* Making debt repayment your priority will probably mean postponing or doing without some other purchases.

**Home equity loans**
*Advantages:* The interest rate is usually lower than credits cards and the interest is tax-deductible. Monthly payments are much lower because the term of the loan is spread out over a long term.
*Disadvantages:* Remember, home equity loans are secured by your home. If you fail to make your payments, you could lose your home! Additionally, home equity loan balances reduce the amount of money you'll receive when you sell your home. Because payments are spread out over a long term, you'll be in debt for a long time, too.

**Debt consolidation loans**
*Advantages:* Debts from several credit cards are consolidated into a single payment, often at a lower interest rate. This can make it easier to keep track of monthly bills.
*Disadvantages:* Watch out for predatory lenders who may try to take advantage of you. Some companies that promise to negotiate with credit card companies on your behalf charge enormous fees and can't get a better interest rate than you could by simply calling the company yourself!

**Transfer balance to another card**
*Advantages:* Many credit card companies will let you transfer balances and charge no interest for six months or even a year, allowing you to save on interest charges.
*Disadvantages:* Before you transfer a balance, be sure to read the fine print in the disclosure statements: there could be hidden finance charges. Remember that the introductory rate your being offered is only temporary: if you can’t pay off the balance before the permanent interest rate kicks in, you may end up with higher payments than you had before. Also, be sure to close your old credit card account. Otherwise, the balance transfer may tempt you to pile on even more debt in the old account.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.
About Bankruptcy

If you owe more than you can repay, you may have the option of declaring bankruptcy. Bankruptcy is a legal process that involves seeking the help of the U.S. Federal Court to release or “discharge” some of your debts and get a fresh start financially. In recent years, bankruptcy filings have reached an all-time high.

Bankruptcy is a serious matter that can have significant, long-lasting consequences. While it may be an option, it’s not an “easy way out.” Before considering the option of bankruptcy:

- Talk to your creditors to see if they will agree to extend your payment schedule, allow you to skip a payment, or make some other reasonable repayment alternative. Discuss any possible solutions.
- Consult with a qualified credit or debt counselor. Bankruptcy law is complicated and changing. In recent years, the U.S. Congress has been reviewing and updating bankruptcy laws and state laws that affect bankruptcy. These laws vary, so it’s essential to get professional counseling about your options.

Remember, if you file:

- You will have legal and court costs.
- If you have co-signed on a loan, your co-signer will remain liable for the full amount of a co-signed debt unless you make other repayment arrangements with the court.
- You cannot claim any debts that you fraudulently took on, or incurred, knowing that you would be unable to pay them back. (Don’t think that you can take an expensive trip around the world and then declare bankruptcy!)
- A bankruptcy will stay on your credit history for up to 10 years. It may lower your credit score, causing lenders to charge you higher interest rates in the future.

Depending on your personal financial situation and the federal and state laws that apply, declaring bankruptcy may eliminate some of your debts or allow you to repay just a portion of each debt you owe. The court may allow you to keep some of your assets in the process. Bankruptcy usually does not erase child support, alimony, fines, some taxes, and most student loan obligations.

In a typical bankruptcy scenario, a debtor files a Voluntary Bankruptcy claiming the inability to repay his or her debts. A bankruptcy judge then decides whether or not a debtor may declare bankruptcy. If the bankruptcy case proceeds, the judge may decide to release the debtor from the obligation to repay some of his or her debts. This is known as “discharging” debts. Once a person's bankruptcy case has been completed, none of the debtor's former creditors may pursue the debtor for his or her discharged debts.

However, if the debtor has defaulted on a secured loan—a loan in which the creditor has a legal claim, called a lien interest, in assets belonging to the borrower (such as a car, house, or other collateral) to ensure payment—the creditor may still be able to take possession of the collateral even though the debt was discharged.
About Bankruptcy (continued)

There are several types of bankruptcy. Each is known by the chapter of the bankruptcy law that describes it. Two of the most common types are Chapter 13 and Chapter 7.

- In Chapter 13 bankruptcy, the borrower submits a repayment plan to the court and promises to make partial payments to creditors over a period of three to five years. If you have a regular income and limited debt, Chapter 13 allows you to keep your property that you otherwise might lose, provided you continue to make your payments under the repayment plan.

- In Chapter 7 bankruptcy, the debtor surrenders his or her assets to an individual called a “trustee.” The trustee sells the debtor’s assets and gives the money to the creditors. The debtor may be allowed to keep some assets, such as a car, work-related tools, and basic household furnishings. Under the new bankruptcy law you can receive a discharge of your debts under Chapter 7 only once every eight years.

This summary is a very simplified explanation of the bankruptcy laws and procedure. However, it is by no means all encompassing. This summary does not constitute legal advice or the views of Wells Fargo & Company and should not be relied upon as such. Should anyone reading this summary contemplate filing bankruptcy, they should consult qualified legal counsel. Each bankruptcy is unique and no summary can adequately address all possible fact situations.

We invite you to contact Wells Fargo for further information and assistance. Visit our Web site at wellsfargo.com or any Wells Fargo store.