

Lesson 3: A Fresh Start

Lesson Description

In this module, students look at the financial lessons learned by a teen and her family while they were displaced from their home and community following Hurricane Katrina. The lesson content examines the benefits and importance of access to credit in an emergency. Using hands-on learning strategies and internet resources, students will calculate simple interest, learn about different types of credit, evaluate a credit card offer, explore the components of a credit score, and compare the impact of a range of credit scores on the cost of credit.

The lesson is designed for personal finance-related classrooms and is presented in two formats: 1) SMART Board-based lesson, and 2) PowerPoint-based lesson.

The video component of the lesson shares the financial and personal experiences and lessons learned of a teenage girl, her family, and friends when they were forced to evacuate Biloxi, Mississippi during Hurricane Katrina and after they returned.

Time Required

Three to four 45-minute class periods for entire lesson.

The SMART Board and PowerPoint lessons and/or individual lesson components could be utilized in single-class-period segments

Concepts

Annual percentage rate (APR)	Installment/Term credit
Credit	Interest
Credit cards	Interest rate
Credit history	Loan term
Credit report	Nominal APR
Credit score	Noninstallment/Service credit
Debt	Principal
Effective APR	Revolving credit
Fees	Secured credit
Financial emergency preparedness	Unsecured credit

Objectives

The students will be able to:

- Analyze the types of credit and determine the characteristics of each.
- Compare credit card offers.
- Define credit and debt.
- Evaluate a credit card statement.
- Explain the components of a credit score.
- Identify the opportunity cost of using credit.
- Understand the importance of having access to credit.
- Weigh the impact of interest rates on monthly payment amounts.

Materials

- **Presentation:** *Katrina's Classroom* Lesson 3 — SMART Notebook file* or PowerPoint presentation
- **“A Fresh Start” video:** DVD, flash drive or online (www.youtube.com/watch?v=3RY1kTCIYT0)
- **Handouts 1–3:** one copy per student

*SMART Notebook files for all lessons can be found at www.frbatlanta.org/edresources/classroomeconomist/.

National Curriculum Standards

COMMON CORE STANDARDS

Grades 6–8 students	Grades 9–10 students	Grades 11–12 students
College and Career Readiness Anchor Standards for Reading Key Ideas and Details		
1. Read closely to determine what the text says explicitly and to make logical inferences from it; cite specific textual evidence with writing or speaking to support conclusions drawn from the text.		
College and Career Readiness Anchor Standards for Writing Production and Distribution of Writing		
1. Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.		
College and Career Readiness Anchor Standards for Writing Research to Build and Present Knowledge		
7. Conduct short as well as more sustained research projects based on focused questions, demonstrating understanding of the subject matter under investigation.		
Reading Standards for Literacy in History/Social Studies 6–12 Key Ideas and Details		
2. Determine the central ideas or conclusions of a text; provide an accurate summary of the text distinct from prior knowledge or opinions.	2. Determine the central ideas or conclusions of a text; trace the text’s explanation or depiction of a complex process, phenomenon, or concept; provide an accurate summary of the text.	2. Determine the central ideas or conclusions of a text; summarize complex concepts, processes, or information presented in a text by paraphrasing them in simpler but still accurate terms.
Integration of Knowledge and Ideas		
7. Integrate visual information (e.g., in charts, graphs, photographs, videos, or maps) with other information in print and digital texts.	7. Integrate quantitative or technical analysis (e.g., charts, research data) with qualitative analysis in print or digital text.	7. Integrate and evaluate multiple sources of information presented in diverse formats and media.
Writing Standards for Literacy in History/Social Studies 6–12 Research to Build and Present Knowledge		
7. Conduct short research projects to answer a question (including a self-generated question), drawing on several sources and generating additional related, focused questions that allow for multiple avenues of exploration.	7. Conduct short as well as more sustained research projects to answer a question (including a self-generated question) or solve a problem; narrow or broaden the inquiry when appropriate; synthesize multiple sources on the subject, demonstrating understanding of the subject under investigation.	7. Conduct short as well as more sustained research projects to answer a question (including a self-generated question) or solve a problem; narrow or broaden the inquiry when appropriate; synthesize multiple sources on the subject, demonstrating understanding of the

		subject under investigation.
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National Curriculum Standards (continued)

JUMP\$TART NATIONAL PERSONAL FINANCE STANDARDS

8 th Grade Students Additional Expectations	12 th Grade Students Additional Expectations
Financial Responsibility and Decision Making	
Standard 2: Find and evaluate financial information from a variety of sources.	
Identify online and printed sources of product information and list the strengths and weaknesses of each.	Determine whether financial information is objective, accurate, and current. Given a scenario, identify relevant financial information needed to make a decision.
Standard 4: Make financial decisions by systematically considering alternatives and consequences.	
Evaluate the results of a financial decision.	Give examples of how decisions made today can affect future opportunities
Standard 4: Apply consumer skills to purchase decisions.	
Given an age-appropriate scenario, describe how to use systematic decision making to choose among courses of action that include a range of spending and non-spending alternatives.	Apply comparison shopping skills to purchasing decisions. Describe the effect of inflation on buying power.
Credit and Debt	
Standard 1: Maintain creditworthiness, borrow at favorable terms, and manage debt.	
Explain how debit cards differ from credit cards. Explain how interest rate and loan length affect the cost of credit. Using a financial or online calculator, determine the total cost of repaying a loan under various rates of interest and over different periods.	Compare the cost of borrowing \$1,000 by means of different consumer credit options. Define all required credit card disclosure terms and complete a typical credit card application. Explain how credit card grace periods, methods of interest calculation, and fees affect borrowing costs. Using a financial or online calculator, compare the total cost of reducing a \$1,000 credit card balance to zero with minimum payments versus above minimum payments.

Standard 2: Explain the purpose of a credit record and identify borrowers' credit report rights.	
<p>Explain why it is important to establish a positive credit history.</p> <p>Explain the value of credit reports to borrowers and to lenders.</p> <p>Describe the information in a credit report and how long it is retained.</p> <p>Give examples of permissible uses of a credit report other than granting credit.</p>	<p>Describe the elements of a credit score. Explain how a credit score affects creditworthiness and the cost of credit.</p> <p>Explain the factors that improve a credit score. Identify organizations that maintain consumer credit records.</p> <p>Explain the rights that people have to examine their credit reports.</p> <p>Analyze the information contained in a credit report, indicate the time that certain negative data can be retained, and describe how to dispute inaccurate entries.</p> <p>Discuss ways that a negative credit report can affect a consumer's financial future.</p>

Lesson Procedures

Specific instructions for SMART Board and PowerPoint are highlighted with a dotted border.

SLIDE 1. A FRESH START (TITLE PAGE)

This lesson will cover information related to understanding the importance of the need for and benefits of access to credit in emergency situations as well as in ordinary times. Our access to credit can be constantly changing because it depends on our past experiences with managing our finances and meeting our credit obligations.

SLIDE 2. LESSON OBJECTIVES

In this lesson, we define credit and debt, describe strategies for the wise use of credit; review basic concepts important to understanding loans and credit cards; explore the importance of and relationships among credit history, credit report, and credit score; and discuss how the availability of credit plays an important role in financial preparedness in the face of a disaster or any income disruption.

SLIDE 3. ARE YOU FINANCIALLY PREPARED FOR AN EMERGENCY SITUATION?

During Hurricane Katrina and in other recent natural disasters, we learned valuable lessons about the importance of planning. Have students think about the financial resources that might be necessary in an emergency situation like a hurricane.

ASK THE STUDENTS

Why would we need cash in an emergency?

Possible responses: Because banks may be closed; there may be no electricity; ATMs are unavailable.

We need cash for payments, especially when banks are closed or when the electricity or phone lines are down. To have cash available, we must maintain a sufficient amount of money in our emergency account.

ASK THE STUDENTS

How much cash should you have in your emergency fund?

Possible responses: Several thousand dollars; it depends.

A general rule of thumb for an emergency fund is to have three to six months' worth of living expenses.

ASK THE STUDENTS

How much is that? How would you calculate the amount you need in your emergency fund?

Possible responses: Add up your bills; track your expenses for that time period.

A strategy to calculate the amount of money to keep in an emergency fund is to review your monthly expenses and multiply by at least 3, which is the minimum for the emergency fund. Doing so will help you determine the estimated balance for your emergency fund. Another financial resource to consider during an emergency is your access to credit.

ASK THE STUDENTS

Why would access to credit be important in an emergency?

Possible responses: In case you run out of cash you could use your credit card or take out a loan.

Having a credit card is important in an emergency but that credit card is only helpful if you have sufficient credit available to meet the needs that exceed your available cash. Too often people have credit cards that they say are for emergencies, but when an emergency happens, they find that their credit limit is insufficient or, worse yet, their card is maxed out and thus virtually useless in an emergency. If you needed a loan, where would you go? It's best to have an established relationship with a financial institution not only to keep your deposits safe and manage your money, but also that institution can be an option if you need a loan. These are all issues that will help ensure that you have the financial resources available in an emergency.

SLIDE 4. "A FRESH START" VIDEO

Explain to students that they are going to watch the video "A Fresh Start," which tells the story of a family from Biloxi, Mississippi, whose home and community Hurricane Katrina destroyed.

Jacqueline, an 8th grader at the time of the storm, and her family found themselves in a financial emergency similar to what many people experienced in the aftermath of hurricanes or other natural disasters when they were unable to return home for several months. Pay close attention to what Jacqueline's family relied on to help pay for what they needed.

Click the picture to go to the Katrina's Classroom "A Fresh Start" video (www.youtube.com/watch?v=3RY1kTCIYTo).

ASK THE STUDENTS

What did Jacqueline's parents rely on to help pay for their expenses?

Possible responses: Credit cards, credit, some cash.

What kinds of things did they need to purchase?

Possible responses: Gas, food, clothes, necessities, everything.

How long were Jacqueline and her family away from home?

Possible responses: Seven months, several months.

Explain to the students that earlier we said that a basic rule of thumb for an emergency fund was three months of living expenses. Luckily, Jacqueline's parents had access to credit and credit cards to provide for their needs when they found themselves unable to return home for seven months. Imagine what might have happened if they did not have credit cards available to help with the extra expenses. After the storm, they focused on paying down their debts and establishing an emergency fund.

SLIDE 5. EMERGENCIES COME IN ALL FORMS

We just saw examples of how a natural disaster could create a financial emergency. But financial emergencies are not limited to natural disasters. In fact, anything that causes an unexpected disruption in income or that brings about significant unplanned expenses can cause a financial emergency.

ASK THE STUDENTS

What are other situations that could create a financial emergency?

Possible responses: Unexpected car repairs, sports injury.

PowerPoint Instructions

After the students answer, click several times to reveal other emergency situations.

Consider what might happen if you or your family experienced an income disruption caused by a serious long-term illness or injury, the loss of a job, or the death of a family member. What would happen to your budget if you had an unexpected expense like a major car repair? If we take a few moments to think about other situations that could cause a financial emergency, you will see that the possibility of finding yourself in such a situation is very real.

As we saw in the video, in addition to an emergency fund, an established relationship with a bank and access to credit are important parts of financial preparedness. In this lesson we learn about credit and some credit tools, like loans and credit cards that are important parts of financial emergency preparedness.

SLIDE 6. UNDERSTANDING CREDIT

Before we look at specific credit tools, let's review a few key concepts.

PowerPoint Instructions

Before revealing the definitions, ask the students what they think the definitions of *credit* and *debt* are.

Credit can be defined as any arrangement in which you receive goods, services, or money in exchange for a promise to repay at a later date. Credit is also the assessment of your ability to fulfill financial obligations. It is the measure of your creditworthiness as a borrower.

Debt is the result of using credit. It is what you owe or is due to the lender. With credit and debt come responsibility and obligation. We are obligated to repay our debts according to the terms that were agreed on. It is our responsibility to carefully manage our money in order to meet our obligations.

SLIDE 7. RESPONSIBILITIES WHEN USING CREDIT

Credit is a privilege, not a right. You earn good credit through sound financial decision making, controlling debt, and managing credit. Since credit is a measure of your ability to borrow money, good credit allows you to borrow money to finance larger purchases that you might not be able to pay for with cash—like cars, homes, school tuition, furniture, and more.

To build a good credit reputation, you must take steps to know and follow the terms and conditions of your credit agreements. Terms and conditions include things like a payment due date and the fees that may be charged for late payment. Every loan is different but these terms will be spelled out in the agreement.

Credit responsibility means paying your debts as agreed. There are serious consequences for nonpayment. Not paying a loan back as agreed can result in defaulting on the loan. When payments are late or a loan is in default, the lender may submit negative comments to the major credit bureaus that will post to your credit history and lower your credit score. Depending on the

type of loan, the lender may be able to repossess the property purchased with the loan, like your car or house. And in some situations, the lender may resort to wage garnishment. Wage garnishment means that a court has ordered your employer to automatically deduct funds for the loan payment from your paycheck and send the funds to the lender. You no longer control the payments. The money will continue to be deducted until the debt is paid. Garnishments are most commonly used in cases of default on student loans, back taxes, unpaid court fines, and child support.

Regardless of the type of credit arrangement, it is important to read the fine print and understand the terms of the agreement you enter into. In other words, “*Know the rules of tools you use.*”

SLIDE 8. TYPES OF CREDIT

All credit arrangements are not alike. There are three basic types of credit: revolving, installment, and noninstallment, or service, credit. Each of these credit arrangements may be either secured or unsecured.

Secured loans are those that require the borrower to provide collateral to guarantee repayment of the debt. Collateral is something of value—an asset or property—that you pledge when getting a loan. If you don’t repay the loan as agreed, the lender can take your collateral and sell it. For example, when you borrow money to buy a car or a house, the car or house is collateral. If you don’t pay off the loan, the lender can repossess (take back) the property.

Unsecured loans are those that are granted based only on the borrower’s creditworthiness, rather than by a type of collateral—for example, credit cards, service credit, and some installment credit. We will talk more about how a lender determines a borrower’s creditworthiness later.

SLIDE 9. TYPES OF CREDIT

ACTIVITY INSTRUCTIONS

Distribute a copy of Handout 1 to each student. Handout 1 shows examples of each of the credit types (revolving, installment, and service credit) and each credit condition (secured and unsecured). As you discuss each of the credit types shown on slides 10–12, have the students identify the characteristics of each credit arrangement by placing a check mark in the appropriate columns to the right for each.

Explain to the students that this table lists several examples of different types of credit arrangements. “As we go through an explanation of each of the types and conditions you will see that there is lots of variety in credit options. For example, revolving credit arrangements can be either secured or unsecured. As we discuss each credit type, use this handout to identify the characteristics of each option by placing a check mark in the appropriate columns to the right for each.”

SLIDE 10. REVOLVING CREDIT

Revolving credit arrangements allow you to borrow at any time up to a limit set by the creditor. As you borrow against your credit limit, the amount available to borrow is reduced. As you repay your debt, the difference between your credit limit and the amount that you owe is available for you to borrow again. You are allowed to pay back the loan in lump sums or over an extended period of time. If you choose to pay over time, you will be charged interest on the full amount that you owe. A credit card is an example of revolving credit.

SLIDE 11. INSTALLMENT (OR TERM) CREDIT

In installment credit or term credit arrangements, a lender allows you to borrow an amount for a specific purpose for a specific amount of time at a given interest rate. The total amount of interest to be paid is calculated up front and payments are spread out equally over the length of the loan. Car loans, mortgages, and student loans are examples of installment credit.

SLIDE 12. NONINSTALLMENT (OR SERVICE) CREDIT

Noninstallment (or service) credit arrangements allow you to pay for a service that you have already used. Payment in full is required by a specified date. Although interest is not charged, failure to pay within the specified time may result in service fees or discontinuation of service. Cell phone plans, cable TV, and utilities are examples of service credit.

SLIDE 13. TYPES OF CREDIT

Review with the students the characteristics of each credit arrangement example.

HANDOUT 1 SOLUTION

Examples of typical credit arrangements	Revolving	Installment	Service	Secured	Unsecured
<i>Credit cards</i>	X				X
<i>Student loans</i>		X			X
<i>Car loans</i>		X		X	
<i>Cell phone contracts, utility bills</i>			X		X
<i>Home mortgages</i>		X		X	
<i>Home equity line of credit</i>	X			X	
<i>Personal line of credit</i>	X				X

SMART Board Instructions

In this activity, five students will select a type of credit and determine if it is secure/unsecure or revolving/installment/service. When they touch a tile that represents a type of credit or secure/unsecure or revolving/installment/service, the tile will disappear. There should be three empty squares that represent each student’s choices. Click the reset button between students to return all of the possible answers. Possible correct answers are listed below.

- Credit cards/revolving/unsecured
- Student loans/installment/unsecured
- Car loans/installment/secured
- Cell phone contract, utility bills/service/unsecured
- Home mortgages/installment/secured
- Home equity line of credit/revolving/secured
- Personal line of credit/revolving/unsecured

At the end of the activity, click on the check mark to check the answers for the credit grid, which will take you to slide 41. Press the arrow to return to slide 13 to continue the lesson.

PowerPoint Instructions

Each mouse click will reveal, row by row, the correct checked boxes for each credit arrangement. Prior to revealing the completed grid, ask the students to share their answers.

ASK THE STUDENTS

Based on what you learned in this activity, what does it mean when we say “Know the rules of the tools you use”?

Possible responses: There’s not one set of rules for every kind of loan; read the fine print; know the rules for your specific credit arrangement.

Explain to the students that this activity shows us that even in a list of only five examples, each differs in some way from others on the list.

SLIDE 14. USING CREDIT WISELY

ASK THE STUDENTS

Is having debt always a bad thing?

Possible responses will vary, but most often students reply that debt is bad.

Generally speaking, having debt is not necessarily a bad thing. Having debt means that a lender thought you creditworthy. How we use credit and how we manage our debt payments makes the difference between a positive and negative credit experience. Using credit wisely helps us take advantage of the opportunity to use credit to meet our short-term needs—like those that come from an emergency situation—and helps us meet long-term goals of buying a car, going to college, or buying a home.

Using credit wisely also includes knowing the difference between the amount of debt you can afford to pay and the amount of credit that you might qualify for from a lender. A lender's job is calculating an approval amount based on the borrower's existing debts and income. This does not include the costs associated with food, clothing, transportation, school supplies, entertainment, or extracurricular activities. It is your job to know the full story of your monthly budget expenditures and limit your credit use to what you actually need and what fits into your budget.

Before using credit for a purchase, ask yourself: Do I need this now, or can it wait? The answer will vary depending on your situation. If the answer is yes, then be sure your decision takes into account the real cost of borrowing for the purchase and how long this monthly expense will impact your budget. Adjust your spending plans for this new expense.

Another cost associated with using credit is opportunity cost. When you use credit to make a purchase, you give up the purchasing power of money earned in the future to pay for past purchases. Additionally, money you spend on fees and interest you could have invested or used for other purchases. For example, if you pay \$25 per month in interest and \$200 a month in principal for a car loan, the opportunity cost of the \$25 in interest may be dinner and a movie with friends.

SLIDE 15. LOAN BASICS—TOTAL COST OF CREDIT

Using credit is not free. In fact, depending on your credit history, it can be very expensive. Before entering into a credit arrangement, pay close attention to additional fees and costs that make up the real cost for making a purchase on credit. The most common extra fee is the late fee. You will be charged a late fee when your payment is not received by the creditor in time to post to your account before the due date. The factors listed on this slide will be further explored in the next few slides.

SLIDE 16. FACTORS OF TOTAL COST OF CREDIT—PRINCIPAL

The total cost of credit includes several factors. *Principal* is the original amount of money you borrowed or that you still owe on which interest is charged. When you repay some of the principal, the amount of money subject to interest is reduced, and thus the amount of future interest charged is also reduced.

SLIDE 17. FACTORS OF TOTAL COST OF CREDIT—INTEREST

Interest is the price you pay for the use of money you borrow from a lender. *Interest rate* is that price paid expressed as a percentage.

SLIDE 18. FACTORS OF TOTAL COST OF CREDIT—INTEREST

Interest is the most obvious cost of credit but it can be a little confusing. The annual percentage rate (APR) is the interest rate charged on the amount borrowed. It reflects the annual cost of borrowing money.

There are two categories of APRs: *nominal* APR and *effective* APR. The nominal APR is the interest rate that's stated on a loan. The effective APR includes fees that have been added to your balance. Because of the additional fees, the effective APR on loan might be higher than the nominal APR.

ASK THE STUDENTS

If two people went to the same bank on the same day to apply for a car loan, would both get the same APR for their loans?

Possible responses will vary but use any answer to emphasize that the answer is NO.

Your credit history, current finance rates, competition, market conditions, and special offers are among the factors that influence your APR in any credit agreement.

SLIDE 19. FACTORS OF TOTAL COST OF CREDIT—LOAN TERM

Loan term is the length of time allowed for the loan to be repaid. Typically, a car loan can range from three to six years and a home mortgage typically runs 15 or 30 years. The loan term is fixed in installment loans but open-ended in revolving arrangements. In general, the longer the term of the loan, the higher the cost of borrowing. Longer-term loans generally have higher interest rates than shorter-term loans, but even if the interest rates are equal, when you take longer to pay, there are more payment periods on which interest is applied.

SLIDE 20. LOAN BASICS—TOTAL COST OF CREDIT

To find out how much it would cost to borrow \$1,000 for one year, at 20 percent interest, you would use the following simple interest formula. **I = PRT (Interest = Principal x Rate x Time)**. Remind students that to convert a percentage to a decimal, move the decimal two spots to the left and drop the percentage sign.

$$I = \$1,000 \times .20 \times 1$$

$$I = \$200 \times 1$$

$$I = \$200$$

SMART Board Instructions

Use your finger to drag the pull tab to the left. It will reveal an easy way to convert a percentage to a decimal. Touch the blue arrow and it will return to its original position.

SLIDE 21. LOAN BASICS—CALCULATING YOUR PAYMENT

To determine how much your monthly payments on this loan would be, you would take the principal (\$1,000) plus interest (\$200) and divide it by the term (12 months).

$$(\$1,000 + \$200) \div 12$$

$$\$1,200 \div 12 = \$100$$

SLIDE 22. WHAT WOULD YOUR MONTHLY PAYMENT BE?

Read the scenario on the tile and have the students calculate what the monthly payment would be.

SMART Board Instructions

When you are ready to reveal the answers, use your finger to touch the tile. For tiles 2 and 3, you need to use the scroll bar on the tile to reveal the entire scenario. Click the slide under the words "...you to pay the least..." to reveal the answer.

PowerPoint Instructions

When you are ready to reveal the answers, click on the slide to reveal each answer one by one in sequence.

Scenario answers are as follows:

1. You would like to borrow \$5,000 for a car at 8% interest for three years.

$$\$5,000 \times .08 \times 3 = \$1200$$

$$\$5,000 + \$1200 = \$6,200$$

$$\$6,200 \div 36 = \$172.22$$

2. You get a better offer and now plan to borrow \$5,000 at 5% for three years.

$$\$5,000 \times .05 \times 3 = \$750$$

$$\$5,000 + \$750 = \$5,750$$

$$\$5,750 \div 36 = \$159.72$$

3. You put \$500 down and would like to borrow \$4,500 at 5% for 30 months.

$$\$4,500 \times .05 \times 2.5 = \$562.50$$

$$\$4,500 + \$562.50 = \$5,062.50$$

$$\$5,062.50 \div 30 = \$168.75$$

ASK THE STUDENTS

What option allows you to pay the least amount of interest?

Possible responses: The correct response is option 3. Although option 3 has the highest payment amount, you will pay less in interest and repay the loan six months earlier than the other options.

SLIDE 23. ABOUT CREDIT CARDS

It is likely that the first credit tool you will use is the credit card. Compared to other credit tools, a credit card is a high interest, revolving, unsecured loan.

Revolving credit arrangements and unsecured arrangements generally have higher interest rates than closed-ended loans. Because the agreement is open ended, there is no set end date for paying off the debt. The longer it takes to pay, the more interest incurred. Credit cards **are not** meant to be long-term financing options. If you use them in that manner, the cost of credit for simple purchases can be staggering.

You can use a credit card for several kinds of transactions. *Purchases* refer to items purchased and service payments. Service payments are monthly billed service payments like gym memberships or other regularly scheduled payments.

A *balance transfer* moves debt from one card to another. Credit card companies use the balance transfer feature as a way to encourage holders of other credit cards to become their customers by offering temporary lower rates on existing balances.

For example, let's say that you have a card that you're currently paying 21 percent interest on, but you get an offer in the mail from an issuer that will charge you only 3.99 percent for the first year and 18 percent thereafter. By moving your balance to the new card, you can save more than 17 percent right away and 3 percent over the long term. If your transfer amount is \$3,000, that means you save around \$500 to \$600 in interest within the next 12 months. This doesn't reduce your debt, it just moves it. Be aware that there is a fee imposed at the time of the transfer and the interest rate charged on the transferred balance may be different from the rate charged for purchases. In addition, the temporary rate can go up immediately if you are late with even one payment.

A *cash advance* is a cash loan from the card issuer. Using a credit card in an ATM or using the convenience checks sometimes included with your bill is a cash advance. Many consumers are unaware that extra fees are charged every time they use their credit cards to withdraw cash. Cash advances usually have a much higher interest rate than purchases or balance transfers and also charge a service fee at the time the advance is taken. Typically, that fee can be 2–4 percent of the advance amount or a set minimum fee.

For example, let's say that you use your credit card to take a \$50 cash advance from an ATM. The credit card company has set the cash advance fee at 4 percent or \$5, whichever is greater. If you calculate 4 percent of \$50, you see that you would pay \$2—but because that's lower than the minimum \$5, you would actually be charged \$5. That \$5 equates to an actual 10 percent fee.

Incentives are perceived benefits that can encourage certain behaviors from cardholders. We say they are “perceived” benefits because, while you can get a bonus by earning discounts or other redeemable points, they may also encourage you to spend more than you normally would.

Some potential incentives tied to credit cards include:

- Low promotional interest rates offered for specific purchases and for a specific amount of time
- Special store discounts or coupons that offer additional savings for purchases made with a store credit card
- Reward programs that allow users to accumulate points based on dollars spent and redeem those points for merchandise and travel discounts
- Cash rewards that promise a refund of a percentage of dollars spent. The amount of the refund is usually calculated as a small percentage of dollars spent on specific purchases. Generally, there is a cap to how much can be refunded in a cash rewards program.

SLIDE 24. ABOUT CREDIT CARDS—ADVANTAGES AND DISADVANTAGES

A credit card is most likely one of the first credit tools a person experiences. However, there are advantages and disadvantages to using one. It is usually easy to obtain and physically easy to use. Understanding how a credit card works and using it with caution and care can build a strong credit history and be a useful tool to fall back on for unexpected or emergency expenditures. Careless use can result in the rapid accumulation of very costly debt and possible destruction of a credit history.

Explain to the students that we will review several concept statements about credit cards. Tell me which statements would be advantages and which would be disadvantages of using a credit card.

SMART Board Instructions

Have students sort the credit card concepts into the columns that are marked advantage and disadvantage. To check the answers click the green check mark in the bottom right corner of the page.

PowerPoint Instructions

Click on the slide and concept #1 will appear.

ASK THE STUDENTS

Is this an advantage or disadvantage of having a credit card?

After their response, click again and the concept will move to the correct column. Repeat the process until all 12 concepts have been categorized.

Advantage	Disadvantage
1. Having goods and services now while paying for them later.	3. Misuse of credit may result in bankruptcy.
2. Earn incentives for card use.	7. It is easy to spend even though you don't have money to pay for the item.
4. Convenience.	8. Possible identity theft.
5. Not having to carry cash.	9. Can cost more than paying in cash.
6. Being able to pay for emergencies.	10. Misuse of credit restricts future income.
12. Purchasing goods or services you couldn't otherwise afford with cash.	11. Misuse of credit may result in higher credit costs.

SLIDE 25. CONSUMER'S GUIDE TO CREDIT CARDS

As a consumer, it pays to be smart when choosing and using a credit card. The Federal Reserve Board maintains a consumer information site, the "Consumer's Guide to Credit Cards," that provides a basic guide to navigating the credit card process.

Click on the image to go to the site (www.federalreserve.gov/creditcard/default.htm).

From this page, review the "New Credit Card Rules" section at the bottom left of the page.

Point out to the students the "New Credit Card Rules" section at the bottom left of the page. The Credit Card Accountability, Responsibility, and Disclosure Act of 2009, which became effective in 2010, imposed mandatory changes in disclosures, statements, and application of fees by lenders. It also imposed new restrictions designed to protect young consumers—those under 21 years of age or college students—from predatory credit card practices.

SLIDE 26. LEARN MORE ABOUT THE OFFER

On this site, you will find an interactive primer designed to help you decipher the terms of a credit card offer so that you can make an educated decision on which credit card offer meets your needs best.

Click on the image to go to this site about credit cards (www.federalreserve.gov/creditcard/default.htm).

Under “Interactive tools and features,” click **Learn more about your offer**. Move your mouse over the numbered circles to reveal information about each section.

ANALYZING A CREDIT OFFER ACTIVITY

Distribute Handout 2 to students. Tell students that they will analyze a credit offer by either using a credit card offer that you provide them (or that you have them obtain then bring to class) or by using one of the websites listed on the handout.

Have each student analyze the offer, then have them work in groups of two to three to compare their offers and determine which offer is best.

ASK THE STUDENTS

Were there any surprises as you analyzed the offers?

Possible responses: High interest rates, differences in the offers.

How did you determine which was the best offer?

Possible responses: Introductory rates, lower interest rates.

Determining the best credit offer often depends on your situation and your specific needs. There isn't always one answer that fits every situation.

SLIDE 27. READING YOUR CREDIT CARD STATEMENT

This tool is designed to help you learn more about the features of your monthly statement, including the new features required by law.

Click on the image to go to a site on how to read statements (www.federalreserve.gov/creditcard/flash/readingyourbill.html).

Click the numbered circles to reveal information about each section.

SLIDE 28. CREDIT CARD REPAYMENT CALCULATOR

The credit card calculator generates an estimate of how long it will actually take to pay off that purchase. This tool is particularly helpful in visualizing the real cost of credit associated with revolving credit agreements. Based on the information you provide, the calculator generates an estimate of how long it will take you to pay off your credit card balance assuming you make no further purchases **and make only the minimum payment** each month. A second calculation can help you develop a plan for paying off your balance sooner.

Remind the students that the credit card issuer calculates a required minimum payment based on the current statement balance. The amount is calculated based on some stated percentage of the balance due. In order to keep your account in good standing, you are required to pay at least this minimum amount by the due date. However, you are free to pay more than the required minimum payment, which means that you will pay off the debt sooner and, as a result, pay less total interest over time.

In general, when someone says “do the minimum,” they mean doing just enough to get by. Let’s use the credit card repayment calculator to show that when it comes to paying off credit card debt, doing only the minimum results in paying the maximum when it comes to interest charged. Let’s assume that you have a credit card that charges 15 percent interest and you have a current balance of \$1,000.

Click on the image to go to the site with the repayment calculator (www.federalreserve.gov/creditcardcalculator/). Or, if you are on the Consumer’s Guide to Credit Cards site, click **Pay it off** from the Interactive tools and features section. Have students use the credit card repayment calculator.

ASK THE STUDENTS

Before we calculate the minimum payment, would anyone like to guess what the minimum payment might be and how long it will take you to pay off that debt paying only the minimum?

Responses will vary.

Let’s check it out. In the “My total balance” field, enter **1,000**. In the APR field, enter **15**, then click **Calculate now**.

The calculator shows that your minimum monthly payment is estimated at \$20. If you pay only \$20 per month, it will take you seven years to pay off that debt and you will pay \$580 in interest.

ASK THE STUDENTS

Imagine that you had spent that \$1,000 on a new computer. Do you think that you will still be using that same computer seven years from now when it is finally paid off? And think about the \$580 you paid in interest. What other things could you have done with the money paid in fees?

Responses will vary.

Explain to the students that the calculator can help find a way to pay off the balance more quickly. Let’s use the calculator again to see what would happen if you paid more than the minimum

amount due each month. Let's assume that you want to pay \$40 per month. Enter **40** in the field that reads "I want to pay a specific amount each month: Enter monthly payment: \$_____". Click **Get Timeframe**.

By simply paying \$40 per month, you have reduced the total time to pay off the balance to three years and cut your interest charges down to \$207.

If you would like to pay off the balance in a specific number of months, the calculator can help you determine our payment. Let's assume that you want to pay the balance off in one year. Enter **1** in the field next to **Enter number of years** and click **Get Monthly Payment**.

By paying \$91 per month, we can pay off that balance in one year, paying only \$84 in interest.

Earlier we said that before using credit for a purchase, you should ask yourself: Do I need this now or can it wait? Remember that we said you need to consider the real cost of borrowing for the purchase and how long this monthly expense will impact your budget. The credit card calculator can help you make that decision a little easier by calculating a payment that works realistically for your budget.

SLIDE 29. CREDIT HISTORY, CREDIT REPORT, CREDIT SCORE

When you apply for credit, lenders rely on a number of tools to decide whether or not to approve the request.

Your credit history is a collection of information that lists credit obligations and your record of payment to these creditors over a long period of time. The information in your credit history is a vital part of the credit review process for a lender. All information, both positive and negative, is reported to the three nationwide credit reporting agencies by lenders who have granted you credit, is included in public record information, or is reported by collection agencies.

The information contained in your credit history is compiled by the credit bureaus into your credit report.

PowerPoint Instructions

Click to reveal "Credit Report."

Your credit report contains detailed information of your borrowing and repayment habits. Most activity, particularly negative entries, remains on a credit report for at least seven years. Bankruptcies generally remain on your report for 10 years. Positive credit entries may remain part of your credit history for years, sometimes indefinitely. Financial institutions and other potential creditors use credit reports to determine the likelihood that future debts will be repaid. Lenders can request a credit score from credit bureaus.

PowerPoint Instructions

Click to reveal "Credit Score."

A credit score is the numerical representation of how you handle your financial obligations. A credit score is a "snapshot" of your level of risk to a lender at a specific point in time. This score is

only one of the components a lender uses in determining whether or not to approve a credit application.

Another way to think of the relationships among your credit history, credit report, and credit score is by using a school grading analogy. Your credit score can be thought of as your “financial GPA.” It takes the information from the credit report and generates a single numerical representation of how you handle your financial obligations. This number is a snapshot of your measure of risk to a lender at a specific point in time. Much like a report card, your credit report summarizes the activity of your credit history. And much like the tests, quizzes, and homework that you complete, your credit history represents all of your credit activity (good and bad) over a long period of time.

PowerPoint Instructions

Keep slide 29 visible showing all three parts: credit history, credit report, credit score.

Explain to the students that our credit history, credit report, and credit score are used together to paint a detailed picture of our credit behavior over time. Starting from the bottom, the credit score is a tabulation generated from information found in a credit report, which in turn is generated by pulling data from our credit history.

There is a lot to learn about credit reports and credit scores. You can use the following activity to get students engaged in learning about these issues on their own. Following the activity are detailed informational slides to recap and expand on the topics in the activity.

WEB QUEST ACTIVITY

This Internet-based activity allows students to conduct a web quest to research terms and facts about credit reports and credit scoring. In completing the exercise, students will become familiar with consumer information sites that are helpful in learning about credit, credit reports, and credit scores. In addition, they will find information on the sites to direct them how to request a free credit report, how to report errors, and how to report fraudulent activity. The quest results will be used as part of a culminating activity at the end of this lesson. The web quest can be completed in pairs or as a group assignment, and can be done in class or as an outside assignment. Internet access is required.

- Divide the class into pairs or small groups (three or four) as appropriate to your preference and class size.
- Distribute a copy of “Handout 3—Credit Quest” to each student.
- Depending on your preference, you may 1) assign each member of the group different preselected questions to complete, 2) assign the group all the questions to complete, or 3) preselect several questions for the group to complete.
- Have the students explore the sites listed on Handout 3 to find the answers to their assigned questions.
- Encourage the students to visit each site in the quest because there may be slight variations in the information found on each site.
- Reconvene the group and have each student contribute his or her findings to the group response so that each group has a fully completed results page or has all assigned questions completed. Summarize the information gathered from each site to form the answers to each question.

- Review the questions with the class to be sure that all the questions have been answered. More detailed information for each of the topics addressed in the web quest can be found on slides 30–32.

SLIDE 30. CREDIT HISTORY AND CREDIT REPORT

By law, you and every other consumer are entitled to a free copy of your credit report from each of the major credit bureaus every year. In addition, if you are turned down for credit, you are also entitled to a copy of your credit report at the time. Your free annual credit reports are available at www.annualcreditreport.com, which is the only website that the Federal Trade Commission authorizes.

Click on the image to go to the site where you order your free credit report (www.annualcreditreport.com/cra/index.jsp).

Explain to the students that your creditors submit information about your repayment behaviors to the three major national credit bureaus: Equifax, Experian, and TransUnion. Because information is sent to credit bureaus from multiple sources, it is important to check the accuracy of what is submitted about you. It is also smart to check your credit reports for evidence of fraud—particularly if you have experienced a theft or noticed inaccurate charges on your accounts.

SLIDE 31. IMPACT OF ENTRIES IN YOUR CREDIT REPORT

Your credit behavior reflects more than just how you pay your bills. It can be used as a reflection of your character and your level of preparedness to adapt to changing circumstances. It affects much more than just your ability to borrow.

Positive information in your credit history increases your opportunities for credit approval by raising your credit score. A higher score equals a lower cost of borrowing. Lenders and insurers use this information to set loan and insurance rates and approve service credit contracts for things like cell phones and cable or satellite TV.

Negative credit behaviors may not only reduce your chances of gaining access to favorably priced credit tools, they can also hurt your chances of getting a cell phone, a car, an apartment, or a house. They can cause your insurance rates to rise or hurt your chance with a prospective employer. While you will most likely still be able to borrow, the cost of borrowing (interest rates) will be much higher for you than those offered to consumers with positive credit histories.

SLIDE 32. ESTABLISHING AND MAINTAINING A GOOD CREDIT HISTORY

Remember, entries on your credit report are submitted by your creditors based on your repayment behaviors. If you don't like what's reflected on your credit report, you must avoid behaviors that result in negative entries.

One of the easiest ways to build and maintain a good credit history is to pay all of your bills on time. Plus, by paying your bills on time, you don't have to waste money on late fees.

Establishing a relationship with a financial institution offers you access to payment tools for managing your money, tools like online bill pay and direct deposit. Successfully maintaining checking and savings accounts shows your financial institution that you have good money management skills. That positive reflection will come in handy when it's time to get that first loan or credit card.

Keeping your financial records safe and secure is an important step in keeping your credit history out of the hands of would-be identity thieves. Carefully reading your statements and keeping your account balanced help ensure that fraudulent activity won't go unnoticed.

SLIDE 33. CREDIT SCORE COMPONENTS (PIE CHART)

As we mentioned earlier, your credit score can then be thought of as your “financial GPA.” This number is a snapshot of your measure of risk to a lender at a specific point in time.

A variety of information from your credit report is used to calculate a score. Your payment history carries the most weight in that calculation, followed by the amount of debt you have. To a lesser degree, the length of time you have had a credit history, new credit agreements, and the types of credit you've used are factored in as well.

SLIDE 34. CREDIT SCORE COMPONENTS

Since payment history makes up the largest percentage of the overall credit score calculation (35 percent), it is easy to see why it is so important to pay your bills on time.

The amount of debt you have compared to your available credit is the next most significant factor (30 percent). The ratio of the total of all your debt obligations to your available credit limit is called a *credit utilization rate*.

It is recommended that consumers keep this ratio to 30 percent or less. Here's an example of what that means. Say you have three credit cards with credit limits of \$2,000 each. This means that your available credit is \$6,000. Now, if one of those cards is maxed out at \$2,000 and the other two cards have balances of \$500 each, your total debt on the three cards is \$3,000. The credit utilization rate is $3,000/6,000$ or 50 percent. Since that number exceeds a recommended maximum of 30 percent, your credit score is negatively affected even if you have always paid on time.

A falling score may cause a credit grantor to drop a credit limit, which would compound the problem. Consider what happens to the credit utilization rate if the creditor decides to drop the credit line on one of your credit cards to \$1,000. With that one change, your credit utilization rate is now at 60 percent. Remember that having access to credit is an important part of a financial preparedness plan. If the available balance of a credit card is used up frivolously, dropping the credit score in the process, that credit card will not be much help in an emergency situation.

Another reason it is important to keep an eye on the credit utilization rate is that available credit limits can be changed by the credit grantor according to market conditions. During times of recession, lenders began dropping credit limits to reduce their level of risk. Some consumers found that their credit limit had been lowered, which increased their credit utilization rate and decreased their credit score. This chain reaction was due to market conditions and not the consumer's behavior.

SLIDE 35. CREDIT SCORE COMPONENTS

It is important to establish a credit history early and maintain it in good standing because another significant factor in credit scoring is the length of time a consumer has had a credit history (15 percent). The ages of every entry on a credit report by credit type are averaged together to produce an average age of credit measure. It is better to keep long-held credit accounts open even if there is a zero balance than to close them in favor of new credit accounts because the older accounts make the average age of credit higher.

New credit also accounts for a portion of the overall credit score (10 percent). Recently opened credit accounts are included in the calculation in two ways. New accounts show credit activity and also that lenders are willing to grant you credits. However, too many new accounts in a relatively short period of time may signal potential trouble if spending gets out of hand. On the other hand, if you have had credit difficulties in the past, a new credit account can signal a reestablishment of positive credit behaviors.

The last component in calculating a credit score is the variety of types of credit used (10 percent). It is beneficial to have examples of both installment debt and revolving debt in your credit history. Do you remember the financial GPA analogy? In school, your GPA is calculated on your grades in all the classes and subjects that you complete, not just English Literature. A good credit history shows solid repayment in a variety of credit situations not just one type.

SLIDE 36. IMPACT OF A CREDIT SCORE

Arriving at a credit score is not a straightforward calculation. Each of the three major credit bureaus may use their own scoring models so numbers generated by each may differ.

In addition, different kinds of credit situations have different criteria for approval. A credit score pulled for a home mortgage application will not necessarily be the same as a credit score pulled for a new cell phone contract.

Because credit scores are developed differently for different credit needs, credit scores are NOT part of a credit report. Consumers have the option to purchase a credit score but that score will only be useful to the consumer as a basic guideline of where they might place in general credit score inquiries. Keep in mind that the score consumers can purchase is not what lenders will use because different credit requests will pull different data from a credit report to produce a score for a specific moment in time.

Regardless of the scoring model used or the reason for the credit inquiry, the fact remains that when it comes to credit scores, higher is better. To lenders, higher scores mean a lower risk of default. The lower the risk is to the lender, the lower the cost of credit is to the borrower. Lenders want to attract clients who present a lower risk, so there are more products available to consumers who earn higher credit scores.

The difference of a few points in a credit score can mean a difference of thousands of dollars over the life of a loan. Do you need proof? On the education section of www.myfico.com you will find a helpful loan savings calculator that estimates the differences in the cost of credit for consumers with different credit scores on the exact same loan. MyFico.com is the consumer division of FICO (Fair Isaac Corporation).

SLIDE 37. IMPACT OF A CREDIT SCORE

Click on the image to go to the calculator (www.myfico.com/myfico/creditcentral/loanrates.aspx).

This website will illustrate how your credit score will impact your interest rate and monthly payment.

Show the students how to use the loan savings calculator using the following information:

- In the box for step 1, select **36-month new auto**.
- In the box for step 2, select the state in which you live.
- In the box for step 3, enter the amount **20,000**.
- In the box for step 4, select any credit score value.

Note: For best results in illustrating the impact change from both higher and lower scores, select an option somewhere in the middle.

Click **Calculate**.

The box on the top right populates with information on APR, monthly payment, and interest paid over the life of the loan. Point out to the students:

- The range in interest rates from high to low based on credit score.
- The monthly payment range from high to low based on APR.
- The total interest paid from high to low based on APR and score.

Click **Calculate** again and the box on the bottom populates. Point out to the students that the calculator shows the changes in the cost of credit if your credit score moves even just a few points either up or down. As you can see, credit scores count!

SLIDE 38. ACTIVITY: VOCABULARY REVIEW

SMART Board Instructions

In this activity, students will need to drag and drop the green concept on the right into the word section that describes the definition. Once they have placed all of the terms, click “solve” to reveal the answers.

PowerPoint Instructions

In this activity, students will select a word from the word bank for each definition. Read the definition and then ask: Which word from the word bank matches definition #1?

Click on the slide and the correct term for definition #1 will appear. Repeat the process until all 8 words have been matched to the corresponding definition.

SLIDE 39. IN SUMMARY

In this lesson, we learned that:

- Credit is a privilege, not a right. Responsible use of credit includes a basic understanding of the terms, conditions, and real costs of using loans and credit cards.
- There is an opportunity cost associated with using credit. The money spent on interest and fees is not available for investment or future purchases.
- Our financial behaviors are collected in our credit history, compiled in a credit report, and then used to create a credit score that is used by lenders, employers, service providers and others as a measure of our credit worthiness.
- Establishing a relationship with a financial institution helps us access our money and pay our bills even when we are away from home. This relationship is the basis for building our credit history and gaining access to credit. A solid credit history, a positive credit report, and high credit score can complement our financial preparedness plan by providing access to credit when an emergency situation arises.

CLOSING ACTIVITY: CREATE AN INTERACTIVE WALL—“ALL ABOUT CREDIT”

Each group will examine the results of each of the activities completed in this lesson and develop a visual display of key facts about credit, credit reports, or credit scores. The visual display is a poster that serves as a reminder of the importance of developing and maintaining good credit. This activity may take a full 45-minute class period to complete, or it can be assigned as a take-home activity.

Each group will use the questions they were assigned in the web quest activity or any of the other activities as the topic for its poster. You may want to assign a specific topic from the lesson to each group in order to ensure that each category is represented.

Instruct the group to review their notes and activities and identify as a group what they perceive to be the four most important or interesting facts or lessons learned. Then list those facts in ascending rank order with the highest priority item **last**. The facts or information can be suggestions, cautions, facts, procedures, or statistics. Creativity counts.

If computer access is readily available, encourage the students to use word processing, desktop publishing, presentation applications, or other graphic applications to produce their posters.

If computer access is not possible, encourage the students to use other artistic means to create their poster.

Allow time for the groups to discuss, plan, and create their poster. The posters can be text, graphic, drawings, images, rhyme, mnemonic devices, or slogans designed to improve recall of the selected facts.

Reconvene the group to review the activity results by asking each group to display its poster and present a summary of the four facts that they selected as the most important. Encourage the students to explain the meaning or relationship of the imagery or verse they used on their poster. Provide feedback or solicit feedback from the group if preferred. As an ongoing reminder of the results of this lesson, display the posters as part of an interactive wall in the classroom.

Handout 1: Types of Credit

Directions

This table lists several examples of different types of credit arrangements. As each credit arrangement is discussed, use this handout to identify the characteristics of each option by placing a check mark in the appropriate columns to the right for each.

Examples of typical credit arrangements	Revolving	Installment	Service	Secured	Unsecured
Credit cards					
Student loans					
Car loans					
Cell phone contracts, utility bills					
Home mortgages					
Home equity line of credit					
Personal line of credit					

Handout 2: Analyzing a Credit Offer

Directions

Using this worksheet, you will analyze a credit card offer. Answer each question about the credit card offer as completely as possible. You may complete this offer by using an offer that you are provided or by finding an offer online at a website such as www.creditcards.com or www.bankrate.com/credit-cards.aspx.

1. Is there an introductory APR for this credit card offer? _____
2. If the answer is yes, what is the rate and how long is the rate good for?

3. After the introductory period ends, what will your new APR be?

4. Is the new rate fixed or variable? _____
5. What is the APR for balance transfers? _____
6. What is the APR for cash advances? _____
7. What is the default/penalty APR? _____
8. Using the link below, determine what would happen to the card's APR if the Federal Reserve raises rates by 1 percent. www.bankrate.com/rates/interest-rates/wall-street-prime-rate.aspx

9. How can you avoid paying interest on purchases? _____

10. Is there an annual fee for the credit card? _____
11. If you transfer a balance from one account to this new card, what will the fee be?

Handout 2 (Continued)

12. If you have a cash advance on this new card, what will the fee be?

13. If you make a purchase using this card in another country, what will the fee be?

14. Are there penalty fees? If so, list how much they are below:

Late payment _____

Over the credit limit _____

Returned payment _____

Handout 3: Credit Quest

Directions

The purpose of this exercise is to help you better understand how a credit score and credit report are derived and how they are used by lenders and others who have permission to use them. Use the website links below to answer the following questions. For each answer, cite the website where you found your answer.

- Annualcreditreport.com (see Frequently Asked Questions tab)
- My Fico www.myfico.com/CreditEducation/articles/
- Understanding Your Fico Score
www.myfico.com/Downloads/Files/myFICO_UYFS_Booklet.pdf
- Philadelphia Fed Consumer Resources www.philadelphiafed.org/consumer-resources/publications/
- Equifax.com (see the Education tab)
- Transunion.com (see the Credit Education tab)
- Experian.com (see Credit 101 on the Personal tab)

CREDIT REPORT

1. What is a credit report?
2. Where does the information contained in a credit report come from?
3. How often should you review your credit report?
4. When can your credit report be reviewed by a lender or other entity?
5. What are the conditions under which you, as a consumer, can get a free copy of your credit report?
6. How long will negative information remain on your credit report?
7. How long will positive information remain on your credit report?
8. What is a “healthy mix” of types of credit use on your credit report?
9. Give examples of the most common credit obligations.
10. What is **not** included in a credit report?

CREDIT SCORE

11. What is the difference between a credit report and a credit score?
12. What credit information categories make up the credit score?
13. Which category has the largest impact?
14. List the credit type components of the largest category.
15. What kind of information is not included in your credit score?
16. What is a credit inquiry, and how does it affect your credit score?
17. Besides applying for credit, what might your credit score be used for?
18. How does a rising credit score impact the cost of credit (interest rate charged for a loan)?
19. How will a bankruptcy affect my credit score?
20. How will closing old accounts impact my credit score?

Katrina's Classroom was developed by a team of senior economic and financial education specialists at the Federal Reserve Bank of Atlanta.

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For additional classroom resources and professional development opportunities, please visit [www. frbatlanta.org/edresources](http://www.frbatlanta.org/edresources)