

LESSON PLAN

Credit

Provide an awareness and understanding of what credit is and the rights and responsibilities of using credit.

Learning Objective(s):

- Understand some of the reasons for getting credit
- Understand some of the advantages and disadvantages of using credit
- Understand why banks issue credit
- List and understand some of your rights and responsibilities as a consumer
- Understand creditworthiness
- List some of the reasons for establishing a credit history and understand how a credit history is built
- List and understand the three principal types of consumer credit
- Determine a safe debt load

Target Group:

- **Grade 7 – Grade 8**

Lesson Excerpt:

In today's world, credit is integrated into everyday life. However, using credit wisely is critical to building a solid credit history and maintaining fiscal fitness. While most students have a general idea about the advantages and disadvantages of credit, this lesson provides an opportunity to discuss these issues in more detail.

Young people and others commonly wonder how to establish credit. In this lesson, students will learn about the creditworthiness factors of character, capital, and capacity in order to help them gain an understanding of how to start and maintain a credit record.

This chapter will also introduce students to different types of credit: single-payment credit, installment credit, and revolving credit. Finally, this section will educate students about how much credit might be appropriate for their situation.

Students' Activities:

1-1 Should They Use Credit?

1-2 Test Your Credit Knowledge

- Distribute the test and give students approximately 15 minutes to complete it. When they are finished, discuss their answers. Reinforce facts and concepts of credit.

1-3 How Much Can They Safely Carry?

- Students plan and calculate safe debt loads for other consumers.
- Distribute the exercise, giving students about 20 minutes to complete it. When they are finished, discuss the answers, writing their calculations on the board.

1-4 Lesson Quiz

1-1 What is Consumer Credit?

- Definition

1-2 Why get Credit?

1. Establish a credit history

2. Advantages of having credit

- Buying needed or wanted services and goods using anticipated future income
- Having a record of purchases
- Consolidating bills

3. Disadvantages of having credit

- Interest payments
- Overspending becomes too easy
- Financial trouble may arise if card is not managed properly

1-3 Why Banks issue Credit

- To make money
- To offer service to customers

1-4 Creditworthiness

- Character
- Capital
- Capacity

1-5 Your Responsibilities

- Not to run up more debt than you can comfortably repay
- Not to exceed the credit limit established by your creditor

- Not to re-sell merchandise before completely paying the creditor, if the creditor has retained the title or has a lien against it
- To notify the creditor immediately if your credit card is lost or stolen

1-6 Building a Credit History

1. Credit bureaus—what they are and how they work

2. How to establish a good credit history

- Pay bills on time
- Get a low-limit credit card or other loan and pay bills promptly

1-7 Lesson Quiz

LESSON MATERIAL

Advantages and Disadvantages of using Credit

Advantages:

- Able to buy needed items now
- Don't have to carry cash
- Creates a record of purchases
- More convenient than writing checks
- Consolidates bills into one payment

Disadvantages:

- Interest (higher cost of items)
- May require additional fees
- Financial difficulties may arise if one loses track of how much has been spent each month
- Increased impulse buying may occur

The Three Cs

Character—will you repay the debt?

From your credit history, does it look like you possess the honesty and reliability to pay credit debts?

- Have you used credit before?
- Do you pay your bills on time?
- Do you have a good credit report?
- Can you provide character references?
- How long have you lived at your present address?
- How long have you been at your present job?

Capital—what if you don't repay the debt?

Do you have any valuable assets such as real estate, savings, or investments that could be used to repay credit debts if income is unavailable?

- What property do you own that can secure the loan?
- Do you have a savings account?
- Do you have investments to use as collateral?

Capacity—can you repay the debt?

Have you been working regularly in an occupation that is likely to provide enough income to support your credit use?

- Do you have a steady job? What is your salary?
- How many other loan payments do you have?
- What are your current living expenses? What are your current debts?
- How many dependents do you have?

Your Responsibilities

- Borrow only what you can repay.
- Read and understand the credit contract.
- Pay debts promptly.
- Notify creditor if you cannot meet payments.
- Report lost or stolen credit cards promptly.
- Never give your card number over the phone unless you initiated the call or are certain of the caller's identity.

Building a Credit History

- Establish a steady work record.
- Pay all bills promptly.
- Open a checking account and don't bounce checks.
- Open a savings account and make regular deposits.
- Apply for a local store credit card and make regular monthly payments.
- Apply for a small loan using your savings account as collateral.
- Get a co-signer on a loan and pay back the loan as agreed.

Guyana's Credit Bureau

A **credit bureau** is an organization that collects credit information from lenders and from other sources about a consumer, processes that information and uses it to create comprehensive credit reports and other value added services. This amalgamated information is supplied in an organized format to banks, other lending institutions and to other persons or entities for specified purposes with the written permission of the consumer.

Guyana has a credit bureau called Creditinfo (Guyana) Inc. This credit bureau was granted its licence on July 15, 2013. The Credit Bureau was formally launched on September 27, 2013 and went into operation at the end of 2013. Creditinfo (Guyana) Inc. is the second regional presence of a large, well respected Icelandic conglomerate that operates out of more than twenty five countries throughout the world. Creditinfo (Guyana) Inc.'s presence in Guyana was facilitated by a rigorous investigative and authentication process before being licensed by the Bank of Guyana to service the local credit market.

A credit bureau may obtain information primarily from commercial banks, non-bank licensed financial institutions, utility companies, and hire purchase companies. In addition, under section 12(7) of the Credit Reporting Act, a credit bureau may collect data or information from public sources including:

- data available to the general public
- court judgments
- immovable property registers
- company registries

Also any entity that the Bank of Guyana may designate as a credit information provider may be a source of information for the credit bureau.

The credit bureau could collect information such as those listed below:

- the amount and nature of any credit facility(ies)
- the type of security against those credit facilities
- the level of non-performing or past due credit facilities
- nature of any guarantee or other non-fund based facility accessed by a consumer
- a consumer's financial means, creditworthiness or history of financial transactions
- any court judgments – adverse or favorable
- information from the Land and Deeds registries -real estate holdings; etc.
- information on a company – its condition and performance; governance structure etc.
- the amount and nature of any hire purchase facility(ies)
- hire purchase payments or non-payments
- utility payments or non-payments

Types and Sources of Credit

Single-Payment Credit

Items and services are paid for in a single payment, within a given time period, after the purchase. Interest is usually not charged.

- Utility companies, medical services
- Some retail businesses

Installment Credit

Merchandise and services are paid for in two or more regularly scheduled payments of a set amount. Interest is included.

- Some retail businesses, such as appliance dealers

Money may also be loaned for a special purpose, with the consumer agreeing to repay the debt in two or more regularly scheduled payments.

- Commercial banks
- Consumer finance companies
- Savings and loans
- Credit unions

Revolving Credit

Many items can be bought using this plan as long as the total amount does not go over the credit user's assigned dollar limit. Repayment is made at regular time intervals for any amount at or above the minimum required amount. Interest is charged on the remaining balance.

- Retail stores
- Financial institutions that issue credit cards

How much can you afford? (The 20-10 Rule)

Never borrow more than 20% of your yearly net income

- If you earn US\$400 a month after taxes, then your net income in one year is:

$$12 \times \$400 = \$4,800$$

- Calculate 20% of your annual net income to find your safe debt load.

$$\$4,800 \times 20\% = \$960$$

- So, you should never have more than US\$960 of debt outstanding.
- Note: Housing debt (i.e., mortgage payments) should not be counted as part of the 20%, but other debt should be included, such as car loans, student loans and credit cards.

Monthly payments shouldn't exceed 10% of your monthly net income

- If your take-home pay is US\$400 a month:

$$\$400 \times 10\% = \$40$$

- Your total monthly debt payments shouldn't total more than US\$40 per month.
- Note: Housing payments (i.e., mortgage payments) should not be counted as part of the 10%, but other debt should be included, such as car loans, student loans and credit cards.

Lesson 4: Questions/Answer Key

The following questions are designed to help you remember the credit information just covered in class.

Directions -

In the spaces provided, answer each of the following questions about credit:

List five things you can do to build a credit history.

1. *Establish a steady work record.*
2. *Pay all bills promptly.*
3. *Open a checking account and don't bounce checks.*
4. *Open a savings account and make regular monthly deposits.*
5. *Apply for a small loan using your savings account for collateral and then pay it back as agreed.*
6. *Get a co-signer for a loan and pay back the loan as agreed.*

When a prospective creditor evaluates a credit application, they look for the three Cs: Character, Capital, and Capacity. For each of the following statements, write the letter that corresponds to each statement's specific characteristic.

a) Character b) Capital c) Capacity

7. Do you have a savings account? *b*
8. Have you used credit before? *a*
9. How long have you lived at your present address? *a*
10. Do you have a steady job? *c*
11. Do you pay your bills on time? *a*
12. What are your current debts and your current living expenses? *c*

List four things you can do to build a credit history.

Any of these answers are correct:

- *Establish a steady work record.*
- *Pay all bills promptly.*
- *Open a checking account and don't bounce checks.*
- *Open a savings account and make regular deposits.*
- *Apply for a local store credit card and make regular monthly payments.*
- *Apply for a small loan using your savings account as collateral.*
- *Get a co-signer on a loan and pay back the loan as agreed.*

True/False

1. A disadvantage of using credit is impulse buying. *T*
2. Capital refers to a person's assets. *T*
3. A steady employment record helps a person's credit history. *T*
4. Installment credit usually allows a person to make additional purchases on an account. *F*
5. Using the 20-10 rule, a person making \$40,000 a year after taxes should have no more than \$8,000 of outstanding debt. *T*

Multiple Choice

6. A common advantage of using credit is:
 - a. less impulse buying
 - b. lower cost for items purchased
 - c. ability to obtain needed items now**
 - d. lower chance of overspending
7. A person's regular income is referred to as:
 - a. character
 - b. capital
 - c. collateral
 - d. capacity**
8. To build a credit history, a person could:
 - a. establish a steady employment record**
 - b. file his or her federal income taxes on time
 - c. use an ATM several times a month
 - d. request to view her or his credit file
9. Utility companies and medical service organizations commonly offer _____ credit.
 - a. revolving
 - b. single-payment**
 - c. installment
 - d. retail
10. Using the 20-10 rule, a person earning \$1,500 a month should not have monthly credit payments that exceed:
 - a. \$300**
 - b. \$150
 - c. \$20
 - d. \$30

Case Application

Ana Gonzalez is considering a loan to finance her college education. She currently owes money on several charge accounts and credit cards. What actions would you recommend? *While this is a valid reason for using credit, Ana might consider paying off some of her other debts before taking on this new loan. She might delay starting school full time until she has paid off her other accounts.*