

**EXERCISE:** Fill out the following chart and answer the questions below.

Balance	Interest Rate	Minimum Payment (1% of balance)	Minimum Payment (2% of balance)	Minimum Payment (3% of balance)	Length of time to pay off debt and the total amount of interest paid for each scenario		
1000	5%	\$15	\$20	\$30			
1000	10%	\$15	\$20	\$30			
All minimum payments are calculated at 1%, 2%, 3% of the balance or at least \$15							

After filling out the chart, answer the following question: What conclusions can be drawn about the time it takes to pay off **credit card** debt when we are only paying the minimum amounts?

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## Credit Reports

Once you have decided to apply for and use **credit cards**, you need to know how banks and other financial institutions determine whether or not to extend you a new line of **credit**. They will use your **credit score** sometimes called your **FICO score** (a score developed by Fair Isaac Company – FICO), to determine if you are credit-worthy. A **credit score** is a statistical calculation based on the **credit** histories of thousands or even millions of other borrowers. Your score is based on how other borrowers with characteristics similar to yours have performed on their loans and **credit cards**. In other words, it's a statistical determination the level of risk you, as a potential borrower, pose to a lender. The lower your **credit score**, the more risky you are as a borrower. The higher your score, the less risky you are – because others with histories similar to yours tend to repay their loans on time.

Your willingness to repay **credit** is based on your history of repayment on other financial obligations. Were you able to pay your bills on time or did you have to wait until you received a call or a letter because you were late paying your debts? If you do not have a record of prompt payments, then you might be denied **credit**. Your repayment history is one of the primary factors that will influence your **credit score**.

In addition to assessing your **credit** risk, potential employers can use your **credit report** in hiring decisions. Landlords can also use **credit report** to decide whether to rent apartments.

There's more to credit than credit scores. Your **credit score** is not the only factor a lender will consider when deciding whether to approve your **credit** applications. You must show the lender that you have the ability to repay the **credit**. Your ability to repay the **credit** is based upon how much income you have and how much of your income will be available to pay off the new **credit**. If too much of your monthly income is tied up in other bills, then you may be denied **credit**.

### **How To Read A Credit Report:**

Now that you know what is included and not included in determining your **credit score**, you need to understand how to read your credit report. There are three major credit-reporting agencies. They are Experian, TransUnion, and Equifax. These reporting agencies use a variety of factors, which you read about, to create your credit score and provide a detailed record of your credit history. You have the right to check your credit report once a year free of charge by going to the following website: <https://www.annualcreditreport.com/cra/index.jsp>

**Exercise:** Conduct some research on credit reports to discover what info is included in a credit report

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## **Improving and Maintaining a Good Credit Score**

### **Establishing and Maintaining Good Credit**

In order to obtain credit, lenders want to look at a person's credit history to see how they handle their financial obligations. Previously, you looked at what was included and not included in an individual's credit report, but you must now look at some strategies for building a good credit history.

- Have a permanent address.
- Have steady employment.
- Maintain a savings and/or checking account.
- Pay all of your bills on time.
- Apply for a gasoline, bank, or department store credit card with a small credit limit. Use the credit and pay it back promptly.
- If you are under 18 years of age, you will need an adult to co-sign a loan with you.
- Check your credit report at least once a year to make sure everything is correct. This can also help you detect if you've been a victim of identity theft.

To give you an idea of how much payments can change based on your **credit score**, see the chart of how interest rates and monthly payments on a \$150,000 30-year, fixed-rate mortgage are affected by the FICO **credit score**.

Your FICO Score	Your Interest Rate	Your Monthly Payment
760 – 850	5.78%	\$878
700 – 759	6%	\$899
680 – 699	6.18%	\$916
660 – 679	6.39%	\$937
640 – 659	6.82%	\$980
620 – 639	7.37%	\$1,035

**EXERCISE:**

Conduct some research on how to maintain and improve a credit score. Record your information and cite your sources

FACTS	SOURCE

**Understanding Credit Card Offers**

If you are thinking about getting a credit card, it's important to understand how to read and compare credit card offers. Some financial institutions offer low-rate introductory credit offers. Why would they do this?

Search online and find three credit card offers. Did any offer credit at a low introductory rate?

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Did that rate increase over a period of time or when the borrower missed a payment or made a late payment?

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Why would a bank offer these low introductory rates?

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For more information, the Federal Reserve Bank offers help on "Understanding your credit card offer":

<http://www.federalreserve.gov/creditcard/flash/offer.pdf>