

## OVERVIEW

Would you want to loan money to someone who can't or won't pay you back? And you probably wouldn't want to loan money to someone who took forever to pay you back.

Lenders, too, don't want to loan money to people who aren't responsible about paying it back. If they don't know anything about someone who is asking to use credit, the lenders have methods to predict if the money will be repaid and paid on time.

This lesson will give you an inside peek at what lenders look for when someone applies for a loan or a credit card. This will help you take steps now to make a positive impression later on a potential lender.

## LEARNING OUTCOMES

In this lesson students will learn about ways to establish a good credit rating. Along the way they will:

- Outline the credit application process.
- Describe what lenders consider when deciding whether to approve or deny a credit request.
- Explain how creditors investigate someone's borrowing habits.

Students will use what they learn today to impress lenders with good borrowing habits.

## PREPARATION

- Order a Module 2 Student Guide for each student. (The Guide is also available online.)
- Preview the lesson PowerPoint presentation, learning tasks, and Module 2 Student Guide, particularly pages 23-31.
- Print or download the Student Learning Plan for this lesson so each student has a copy.
- Prepare Borrow cards for Learning Task 1.
- Prepare Credit Application Packs (one per team) for Learning Task 3.

## WHAT YOU WILL NEED

- Module 2 Student Guide (pages 23-31)
- PowerPoint Presentation 2-3
- Student Learning Plan 2-3
- Copies of the Borrow cards (Task 1)
- Task: Can I Borrow ... ?
- Task: Credit Application
- Task: Applications for Review
- Activity 2.8: Put Your Best Foot Forward
- Challenge 2-B: Building Creditworthiness

## NOTES

Approximate time: 45 minutes (minimum) – 90 minutes (with extension activities)

Annual Credit Reports, [www.annualcreditreport.com](http://www.annualcreditreport.com)

LEARNING TASKS	TEACHING NOTES	MATERIALS
<p>1. Participate in the <b>Can I Borrow...?</b> task.</p>	<p>PROCEDURE <span style="float: right;">TIME ESTIMATE: 5-10 minutes</span></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> [Slide 2] Copy enough <b>Can I Borrow</b> cards so each student has one situation card.</li> <li><input type="checkbox"/> Give each student a Borrow card. Direct students to mingle with classmates to find someone who would be willing to let the cardholder borrow the item listed on the card. Stress that the items will not actually be exchanged, but a deal should be negotiated as though the item might be exchanged. Give the students two to three minutes to negotiate with classmates.</li> <li><input type="checkbox"/> Facilitate a wrap-up discussion by asking the students:           <ul style="list-style-type: none"> <li>▪ <i>What were you trying to borrow, and were you successful in negotiating a deal to borrow the item? Why or why not?</i></li> <li>▪ <i>What were the conditions (if any) for you to follow so you could borrow or use the item?</i></li> <li>▪ <i>When you were asked to loan the item, what influenced your decision to let the person borrow the item?</i></li> </ul> </li> </ul> <p>EXTENSION: Introduce the concept of supply and demand and how this can impact the price of goods or services (called “commodity”).</p>	<p>Module 2 Student Guide</p> <p>Student Learning Plan 2-3</p> <p>SLIDE 2 – Can I Borrow?</p> <p>ACTIVITY Task: Can I Borrow</p>
<p>2. Find out what information you will need when applying for a credit card or applying for a loan. Practice filling out a credit application.</p>	<p>PROCEDURE <span style="float: right;">TIME: 10 minutes</span></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> [Slide 3] Transition into the lesson by telling the students that they will learn about strategies to start on the path to establishing a good credit rating. Preview the Learning Outcomes in the Student Learning Plan. By the end of this lesson, the students should be able to outline actions they will take to make a good impression on creditors.</li> <li><input type="checkbox"/> Ask the students what information they would want to know if they were to loan money to someone.</li> <li><input type="checkbox"/> [Slide 4] Read about Mariah and her mother at the community bank, pages 23-24. Distribute the sample credit application so students can practice filling out a sample application form as though they were Mariah’s mother while you click through Slide 4 to explain what information is typically collected when requesting a cash loan, applying for a credit card, or signing up for electrical service.</li> </ul>	<p>STUDENT GUIDE Pages 23-24</p> <p>SLIDES 3 – Preview 4 – Applying for Credit</p> <p>ACTIVITY Task: Credit Application</p>

LEARNING TASKS	TEACHING NOTES	MATERIALS
	<p>Below are talking points to include in your presentation:</p> <ul style="list-style-type: none"> <li>– <b>Current address and phone number:</b> Be consistent and use your legal name that you also use in a formal signature.</li> <li>– <b>Date of birth and Social Security number:</b> This information helps to differentiate you from other people by the same name. Your Social Security number is unique to only you and should only be shared for official business as required.</li> <li>– <b>Current employer:</b> You need to show evidence that you will be taking in money to repay what you borrowed. Some lenders might also ask how long you have been employed and type of job. For large loan amounts, don't be surprised if the lender contacts your employer to confirm that you have provided truthful information.</li> <li>– <b>Monthly income:</b> In this case, provide the gross income. The employer will want assurance that you make enough money to cover your monthly expenses and repay the amount you owe.</li> <li>– <b>Bank name and account number:</b> You may have heard someone say that you need to have money to borrow money. Showing that you have a savings fund safely stored in a bank will inform the lender that you have some cash on hand to repay the loan if needed; you are not relying completely on future earnings you haven't yet received.</li> <li>– <b>Monthly rent or mortgage payment:</b> This is typically the largest monthly expense for a household. Obviously the lender wants to ensure that your monthly paycheck will cover your housing costs with something left over for the loan payment each month.</li> </ul> <p><input type="checkbox"/> Debrief by asking students to compare the responses for Ms. Anderson's situation to their own if they were to answer now as a teenager or a few years from now as a young adult.</p>	
<p>3. Take a look at sample credit applications. Who would you give the loan to? Establish your criteria to approve (or deny) a request. Then decide whether to approve or deny each request.</p>	<p style="text-align: right;">TIME: 15-20 minutes</p> <p><b>PROCEDURE</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> [Slide 5] Arrange students into teams of three or four students. Distribute one Application Review packet to each team to review. Assign a recorder to take notes for the group, and identify the reporter who will report results out to the whole class. Read the scenario to the whole class to get the students started on the following actions:       <ol style="list-style-type: none"> <li>1. Establish criteria for approving (or denying) a credit application.</li> <li>2. Decide whether to approve or deny each of the applications.</li> </ol> </li> <li><input type="checkbox"/> Point out that the 5 C's of Credit information (Student Guide pages 24-25) can be used to establish the evaluation criteria. When the teams report their decisions, expect that they include this terminology when sharing the rationale for their decisions.</li> </ul>	<p>STUDENT GUIDE pages 24-26</p> <p>SLIDE 5 – You Make the Call</p> <p>ACTIVITIES Packets of four applications for review Activity 2.8: Put your Best Foot Forward</p>

LEARNING TASKS	TEACHING NOTES	MATERIALS
<p>Evaluate how you look to a lender by completing <b>Activity 2.8: Put Your Best Foot Forward</b>.</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Give the students a time limit to complete the task so they are ready to report their decisions. Arrange for each team reporter to report the team decisions and rationale for approving or denying each application request. When teams differ in their evaluation results, facilitate a discussion to bring out the logic behind the decisions, and identify when additional information might be needed to make a more informed decision.</li> <li><input type="checkbox"/> If time allows, assign students to complete <b>Activity 2.8: Put Your Best Foot Forward</b> either in class or out of class.</li> </ul>	
<p>4. Did you know that even as an adult, you will have a report card? Find out how credit reports are used to evaluate someone's borrowing habits. What can you do now as a teenager to start out with good marks as a young adult?</p>	<p style="text-align: center;">PROCEDURE <span style="float: right;">TIME: 10 minutes</span></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Arrange for two students to take notes either on a flipchart or at the board as students shout out types of rating systems they know of that are used to rate or rank either individual progress or comparisons with other individuals or groups. Give a few examples such as student report cards, college football team rankings, or number of weeks an author's book appears on the Best Seller's List. After one or two minutes, debrief by asking students to give their opinions on why these lists and rating systems exist.</li> <li><input type="checkbox"/> [Slide 6] Use this discussion to transition into the topic of credit reporting. Explain that credit-reporting companies collect data about how individuals use credit, and this information is used to rate borrowers. Point out what information is collected starting with the first time that a student applies for a credit card or loan as an adult. (Student Guide, pages 26-27)</li> <li><input type="checkbox"/> Explain that the information in a credit report is used to calculate a credit score on a particular date. The lender uses the score to predict if someone will repay what was borrowed and repay on time. In essence, the lender is using the information available to speculate if someone is a high, medium, or low risk. A low score might be the reason an application is denied or allowed a low credit limit to start out. Someone with a high score will most likely have lower interest rates or higher credit limits than someone with an average or low score. [Note: To help illustrate this concept, compare a credit score to another type of rating scale used by industries to help customers predict the type of experience they will encounter. Examples that might be familiar to your students include: restaurant or hotel star ratings, ski hill slope rating, or golf course rating.]</li> </ul>	<p>STUDENT GUIDE Pages 26-31</p> <p>SLIDES 6 – Credit Reporting 7 – Who's Watching?</p> <p>ACTIVITY Flipchart or Marker board Markers</p>

LEARNING TASKS	TEACHING NOTES	MATERIALS
	<p><input type="checkbox"/> [Slide 7] Explain that three U.S. credit-reporting agencies keep track of how individuals use credit. This information, in turn, is shared with businesses that request information about a person’s credit history. A business should have a credible reason to investigate someone’s creditworthiness. For example, an auto dealer will request a credit report when someone applies for an auto loan to buy a car. Or a landlord might look at a credit report before deciding whether or not to rent out an apartment to someone. (Student Guide pages 27, 30)</p> <p>Tell the students that they can view what is in their credit reports. Each of the credit-reporting agencies provides a free report once a year. Encourage the students to check their reports at least once a year when they are adults to ensure the information is accurate and confirm that no one else is using their identity to access credit.</p>	
<p>5. Complete <b>Challenge 2-B: Building Creditworthiness</b> to plan out strategies to make a good impression on a lender.</p>	<p>PROCEDURE <span style="float: right;">In-class or out-of-class assignment</span></p> <p><input type="checkbox"/> Ask the students to give examples of how they might soon use credit. This is a time to explain that they cannot enter into a credit contract on their own until they are adults. (This is covered in more detail in Lesson 2-4.) Someone under age 21 who applies for a credit card must show proof of income or have a cosigner to be considered to receive a credit card.</p> <p><input type="checkbox"/> [Slide 8] Ask the students what they think someone without a credit report can do to make a good impression the first few times they apply to use credit. Show the slide to provide actions a teen might use to be positioned for the first credit request experience. As a minor, a teen won’t have any credit history to report. If they have no history, a lender might request that someone with an acceptable history cosign on the loan. Use this to transition to the next slide and challenge assignment.</p> <p><input type="checkbox"/> [Slide 9] Guide students to plan out actions they can take prior to turning 18 and as a young adult so they make a good impression on a creditor. Tell them to complete <b>Challenge 2-B: Building Creditworthiness</b> to devise a plan to start now to establish good credit habits.</p>	<p>STUDENT GUIDE Page 31</p> <p>SLIDES 8 - Starting Out 9 - Challenge</p> <p>ACTIVITY Challenge 2-B: Building Creditworthiness</p>

LEARNING TASKS	TEACHING NOTES	MATERIALS
TAKING IT HOME  Find out what the late payment penalties are for borrowing options.	PROCEDURE  Out-of-class assignment  Tell the students to find out what the late payment penalties are for three different borrowing options that they and/or family currently has or might consider.	
TAKING IT HOME  Encourage an adult family member to check his or her credit report.	PROCEDURE  Out-of-class assignment  Encourage the students to use what they have learned to motivate an adult family member to review his or her credit report.	STUDENT GUIDE Page 30

**TAKING IT HOME**

Find out what the late payment penalties are for three different borrowing options you and/or your family currently have or might consider. For each option, calculate the last day of the month that a payment can be received without being charged a late fee.

**TAKING IT HOME**

Encourage a family member to go to [www.annualcreditreport.com](http://www.annualcreditreport.com) to get a free copy of his or her credit report from one of the credit-reporting agencies.

Keep in mind that this information is private, so don't expect to read the report. Instead, use what you have learned to share reasons that a person should check the report at least once a year.