STUDENT LEARNING PLAN

# Lesson 2-3: Credit Rating

### OVERVIEW

**LEARNING OUTCOMES**

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

Use what you learn today to impress lenders with good borrowing habits.

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 TASKS**  These tasks match pages 23-31 in Student Guide 2. | |
| 1. | Participate in the Can I Borrow…? task. |
| 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. |
| 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.  Evaluate how you look to a lender by completing Activity 2.8: Put Your Best Foot Forward. |
| 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? |
| 5. | Complete Challenge 2-B: Building Creditworthiness to plan out strategies to make a good impression on a lender. |

###  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.

# Task: Can I Borrow … ?

### Directions for the Instructor

Copy enough Borrow cards so each student has one situation card. Add or substitute cards with other situations that are relevant to your students.

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 through the item might be exchanged. Give the students two to three minutes to negotiate with classmates.

Facilitate a wrap-up discuss by asking the students:

1. *What were you trying to borrow? Were you able to negotiate a deal to borrow the item? Why or why not?*
2. *What were the conditions (if any) for you to follow so you could borrow or use the item?*
3. *When you were asked to loan the item, what influenced your decision to let the person borrow the item?*

|  |  |  |
| --- | --- | --- |
| Borrow bike to make a quick trip off campus  during lunch | Borrow a car to get to a job interview  tomorrow after school | $5 for lunch |
| $30 to shop at the mall | Cellphone for a few minutes to call a parent (your phone is dead) | Cellphone during lunch to check on a friend who is home today due to illness |
| iPad | Shoes for gym class today because you forgot your shoes at home | $20 to put gas in your car. (You get paid in 8 days.) |
| Class notebook so you can copy the notes from day you were absent from English class | A watch or bracelet that someone is now wearing | Sweatshirt or jacket to wear all day because  you are cold. |

# Task: Credit Application

## NAME:       DATE:

|  |  |  |
| --- | --- | --- |
| **CREDIT APPLICATION** | | |
| Name | | Social Security Number |
|  | | **000-00-0000** |
| Birth Date | Home Phone | Work Phone |
|  |  |  |
| Current Address | | |
|  | | |
| Own or Rent? | Length of Time at Address |  |
|  |  |  |
| Mortgage or Rent Paid To | Monthly Payment |  |
|  |  |  |
| Employment Income | Start Date | Employer Phone Number |
| $      per month |  |  |
| Name and Address of Employer | | |
|  | | |
| Other Income | Source of Other Income | |
| $      per month |  | |
| Bank Name | Account Number | City and State |
|  |  |  |
| Bank Name | Account Number | City and State |
|  |  |  |
| Reference/Other Creditor | Account Number | City and State |
|  |  |  |
| Reference/Other Creditor | Account Number | City and State |
|  |  |  |
| Requested Loan Amount | Purpose of Loan | |
| $ |  | |
| Date | Signature | |
|  |  | |

**Task: Applications for Review**

|  |  |  |
| --- | --- | --- |
| **APPLICATION** | | |
| Name | | Social Security Number |
| Michael Carver | | 111-22-3333 |
| Birth Date | Home Phone | Work Phone |
| 1/1/88 | 702-###-#### |  |
| Current Address | | |
| 555 This Street, Boulder City, NV 89005 | | |
| Own or Rent? | Length of Time at Address | |
| Rent | Six years | |
| Mortgage or Rent Paid To | Monthly Payment | Outstanding Debt Amount |
| Mr. Landlord | $695 | about $7000 |
| Employment Income | Start Date | Employer Phone Number |
| $ 2000 per month | January 11, 2006 | 702-###-#### |
| Name and Address of Employer | | |
| Candy Shoppe Main Street, Boulder City, NV 89005 | | |
| Other Income | Source of Other Income | Total Asset Amount |
| $ 0 per month |  | $ 4,309 (savings & car) |
| Reference/Other Creditors | Account Number | City and State |
| Boulder City Community Bank | 555-56-031 | Boulder City, NV |
| Requested Loan Amount | Purpose of Loan | |
| $5,000 | Purchase car | |
| Date | Signature | |
|  | Michael Carver | |

REASONS:

Decision:  Approve  Deny

1.

2.

3.

# Task: Applications for Review

|  |  |  |
| --- | --- | --- |
| **APPLICATION** | | |
| Name | | Social Security Number |
| Jerome Charles | | 987-65-4321 |
| Birth Date | Home Phone | Work Phone |
| 7/15/96 | 222-###-#### |  |
| Current Address |  | |
| 123 Apartment Place #1342, New York NY 10001 | | |
| Own or Rent? | Length of Time at Address | |
| Live with parents | 3 years | |
| Mortgage or Rent Paid To | Monthly Payment | Outstanding Debt Amount |
|  |  | $ 193 |
| Employment Income | Start Date | Employer Phone Number |
| $ 400 per month |  | 222-###-#### |
| Name and Address of Employer | | |
| Self employed (make jewelry and keychains) | | |
| Other Income | Source of Other Income | Total Asset Amount |
| $ 120 per month | Dog walking | $ 0 |
| Reference/Other Creditors | Account Number | City and State |
| Local Credit Union | 1000101 | NYC NY |
| Requested Loan Amount | Purpose of Loan | |
| $1,499 | Laptop | |
| Date | Signature | |
|  | ***Jerome Charles*** | |

REASONS:

Decision:  Approve  Deny

1.

2.

3.

# Task: Applications for Review

|  |  |  |
| --- | --- | --- |
| **APPLICATION** | | |
| Name | | Social Security Number |
| Victoria Mejia | | 987-12-3456 |
| Birth Date | Home Phone | Work Phone |
| 10/12/92 | 972-###-#### | 214-###-#### |
| Current Address |  | |
| 12 Apartment Road #514A, Dallas TX 75000 | | |
| Own or Rent? | Length of Time at Address | |
| Rent | 1 year, 6 months | |
| Mortgage or Rent Paid To | Monthly Payment | Outstanding Debt Amount |
| Ms. Buck | $390 | $ 2,615 |
| Employment Income | Start Date | Employer Phone Number |
| $ 39,520 per year | August 1, 2010 | 214-###-#### |
| Name and Address of Employer | | |
| Cable Company, 100 Main Street, Dallas TX 75000 | | |
| Other Income | Source of Other Income | Total Asset Amount |
| $ 0 per month |  | $ 3,381 (savings & car) |
| Reference/Other Creditors | Account Number | City and State |
| My Credit Union | 2234567 | Dallas TX |
| Requested Loan Amount | Purpose of Loan | |
| $1,750 | Professional toolkit | |
| Date | Signature | |
|  | *Victoria Mejia* | |

REASONS:

Decision:  Approve  Deny

1.

2.

3.

# Task: Applications for Review

|  |  |  |
| --- | --- | --- |
| **APPLICATION** | | |
| Name | | Social Security Number |
| Carmen Vasquez | | 000-11-2222 |
| Birth Date | Home Phone | Work Phone |
| 11/24/96 | 720-###-#### |  |
| Current Address | | |
| 12 Money Street, Penny Town, CO 8111 | | |
| Own or Rent? | Length of Time at Address | |
| Live with parents | Entire Life | |
| Mortgage or Rent Paid To | Monthly Payment | Outstanding Debt Amount |
|  |  | $ 0 |
| Employment Income | Start Date | Employer Phone Number |
| $ 700 per month | January 15, 2011 | 303-###-#### |
| Name and Address of Employer | | |
| Susie’s Gift Shop 123 Main Street, Penny Town, CO 81111 | | |
| Other Income | Source of Other Income | Total Asset Amount |
| $ 75 - $125 per month | Childcare as requested | $1,745 (savings) |
| Reference/Other Creditors | Account Number | City and State |
| Colorado State Bank | 123-45-678 | Penny Town, CO 8111 |
| Requested Loan Amount | Purpose of Loan | |
| $5,000 | Purchase car | |
| Date | Signature | |
|  | *Carmen Vasquez* | |

REASONS:

Decision:  Approve  Deny

1.

2.

3.

# Activity 2.8: Put Your Best Foot Forward

## NAME:       DATE:

How creditworthy do YOU look to a lender? **Directions:**

* Identify specific evidence to show how you meet any or all of the 5 C’s of credit.
* If you don’t have evidence now for any of categories, list what you will do in the near future so you can make a positive impression on a lender in that category.

|  |  |
| --- | --- |
| **C’s of Credit** | **My Evidence** |
| **Capital** |  |
| **Capacity** |  |
| **Character** |  |
| **Collateral** |  |
| **Conditions** |  |