Middle School Activity Packet: Credit Basics

Much like reading with children from a young age can help strengthen literacy, engaging with children about money topics can be a powerful tool to help them better understand money and develop healthy habits. In fact, research shows that many money habits are set by age seven.

The Illinois State Treasurer's Office created the Money Minded Illinois program in 2018. It is a free financial literacy curriculum for teachers and school districts across the state. It was written to meet Illinois State Board of Education (ISBE) standards, and full curriculum booklets are available for download for first grade through middle school at **MoneyMindedIllinois.com.**

Activities from each grade booklet were selected to make packets for families and communities to engage with children in conversations about money. To cover a range of basics for 6th – 8th grade, we've created packets by topic. In this packet, there is a variety of **individual activities and group games about credit.** We hope you enjoy learning and playing together.

Check out other middle school activity packets:

- Budgeting
- Banks & Interest
- Risk, Investments & Insurance

You can also enhance your own personal finance knowledge by creating a free account on the Illinois Financial Wellness Hub (FinWell Hub) at **IllinoisTreasurer.Enrich.org**. The FinWell Hub offers practical tools and courses, as well as free access to Certified Personal Finance Coaches. The FinWell Hub is for adults and high school age students.

Happy learning!

Illinois State Treasurer's Office

Michael W. Frerichs
ILLINOIS STATE TREASURER

What is Credit?

Credit has various meanings. In the context of money, it involves a consumer's ability to pay someone back when money is borrowed. Typically, this includes the cost of an item plus interest.

There are three major credit bureaus: Equifax, Experian, and TransUnion. They collect data and determine a credit score based on important characteristics of the borrower. The credit scoring models are different at each credit bureau.

Let's take a look at four types of credit:

- **Revolving credit**. A credit limit is given to an individual. They can make charges up to that limit. Each month the balance is carried forward and the individual makes a payment.

- **Charge cards**. Many charge cards are a form of revolving credit, but others require that the total balance be paid off every month. Therefore, it is difficult for all credit cards to be classified as revolving credit.

- **Service credit.** This category of credit is typically with service providers. Think of your cell service, internet, or cable provider. Your family has an agreement in place that they will pay the provider each month for a service that is performed.

- **Installment credit.** With this type of credit, a creditor loans you a certain amount of money. You agree to repay that amount monthly until the item is paid for. The monthly payment includes the interest and is for a certain number of months or years. A loan for a vehicle or a mortgage for a house is two types of installment credit.

What does it mean to have good credit? Credit is a lot more than just borrowing money. A lender must know that you will pay them back on time. Think of credit as your reputation. Can you be trusted to pay the agreed upon amount every month? So, if you are purchasing a car, the lender will likely pay more attention to your payment history. It's very important to have good credit – and maintain it. Credit scores range from 300-850. The higher the number the better!

There are 4 C's of credit. They are collateral, character, capacity, and capital. Sometimes a fifth "C" is added representing conditions. We'll concentrate on the four main ones.

- **Character.** Think about this as your reputation or track record for repaying loans. This information appears on your credit report which includes how many times you have borrowed money in the past, whether it was repaid on time, if you have declared bankruptcy, or been reported to a collector.

- **Capacity**. This is a measurement of an individual's ability to repay a loan by comparing it to other debts the borrower owes.

- **Capital.** This term refers to how much money, or capital, the person can contribute to the purchase price. For example, on larger purchases, individuals are usually required to put money, called a "down payment," against the loan. This reduces the amount you will owe for that item. A higher down payment by the individual helps reduce the overall risk of the loan for the lender. A benefit of a higher down payment also means the individual will not have to pay back as much in interest.

- **Collateral.** This is something of value that the lender hangs on to until the loan is repaid. If the borrower defaults, or doesn't pay the money back, then the lender can repossess the collateral. As an example, when a bank loans money for a car, they keep possession of the title which represents who owns the vehicle. Once the loan is paid off, the bank releases the title to the individual.

What is interest? It's the cost of credit and is usually expressed as a percent. Interest applies to almost any form of borrowing. The lower the interest rate, the less money you have to pay back. Credit cards typically have a higher interest rate than loans, such as a car or mortgage. However, the amount of money involved in a loan is usually higher than what someone purchases on a credit card. Interest rates can fluctuate so it is important to read the fine print and know the facts before you enter into any sort of agreement. A credit card company may offer you a lower interest rate as a special incentive to start using their card. But if you miss a payment, that interest rate may skyrocket!

Sources: Equifax, Experian, TransUnion, and Investopedia

How is a Credit Score Calculated?

Each credit bureau (Equifax, Experian, TransUnion) has a different calculation for computing your credit score. In general, here are the factors typically considered:

- Your payment history
- Your used credit versus your available credit
- The types of accounts you have
- The length of your credit history
- The number of accounts you have
- The number of inquiries about your account

Payment history. When a lender or creditor looks at your credit report, a key question is, "If I extend this person credit, will s/he pay it back on time?" Lenders consider your payment history, meaning how you have repaid your credit in the past.

For a young person, a payment history may include credit cards, retail department store accounts, installment loans, auto loans, student loans, and finance company accounts (you may not realize it, but you get a finance company account if you buy something, like a new TV, and the store lets you pay it off in monthly installments).

Payment history will also include details on late or missed payments, how late your payments were, how much was owed, and how recently and how often you missed a payment. The information will also detail how many of your credit accounts have been delinquent in relation to all your accounts on file. So, if you have two credit accounts, and you have had a late payment on one of the accounts, you're at a 50% late ratio.

Used credit versus available credit. Another factor lenders and creditors look at is how much of your available credit, known as your credit limit, you are using. If your credit limit is $500 on three credit cards and you owe $450 to each, you're nearly out of credit on all of them. That's not good. Lenders and creditors like to see that you are responsibly able to use credit. If you have a mix of credit accounts that are "maxed out" or at their limit, that may negatively impact your

How Are Credit Scores Calculated? | Equifax®, www.equifax.com/personal/education/credit/score/how-is-credit-score-calculated/.
"What Is a Good Credit Score?" *Experian*, 15 May 2019, www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/.

credit score.

Type of credit used. Credit score calculations may also consider the different types of credit accounts you have, including revolving debt (such as credit cards) and installment loans (such as auto and student). Another factor is how many of each type of account you have. Lenders and creditors like to see that you're able to manage multiple accounts of different types.

New credit. Credit score calculations may also consider how many new credit accounts you have opened recently. If you open too many new accounts to increase your credit limit, that might not look good.

Length of credit history. This section of your credit history details how long different credit accounts have been active. Generally speaking, creditors like to see that you have a long and consistent history of paying off your credit accounts. So, don't cancel an old credit card when you get a new one; just stop using the old one.

Hard inquiries. Let's say you see a new phone you like, and you want to pay for it over the next 24 months. The phone company will check your credit report to see if you are able to make the payments. That's a "hard inquiry." Checking your own credit report does NOT affect your credit score. These are known as "soft inquiries."

Credit scores range from 300-850. It's better to have a higher number than a lower number. Here is a breakdown:

How Are Credit Scores Calculated? | Equifax®, www.equifax.com/personal/education/credit/score/how-is-credit-score-calculated/.
"What Is a Good Credit Score?" *Experian*, 15 May 2019, www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/.

Good Debt versus Bad Debt

Debt falls into two main categories – good or bad. Here are some differences between them.

Think of **good debt** as something long-term that will likely have an increased value in the future. Taking out a loan to purchase a house is an example of good debt because homeowners hope that their home will continue to grow, or escalate, in value. Who knows, the house may have doubled or tripled in value when the loan is paid off in thirty years! Student loans are generally thought of as another form of good debt because getting a college degree improves your potential for future earnings. However, there are a lot of complexities surrounding student loan debt. Individuals should carefully consider the type of higher education institution they are hoping to attend, what the associated costs are for attending that institution, and what scholarships or financial aid may reduce the overall cost. In addition, it's important to look at the future job possibilities in the career field you are interested in as well as the expected income for a position in that field. Sometimes individuals take on too much student loan debt relative to their future income and, just like with anything else, it can become problematic. Remember, even good debt accumulates interest.

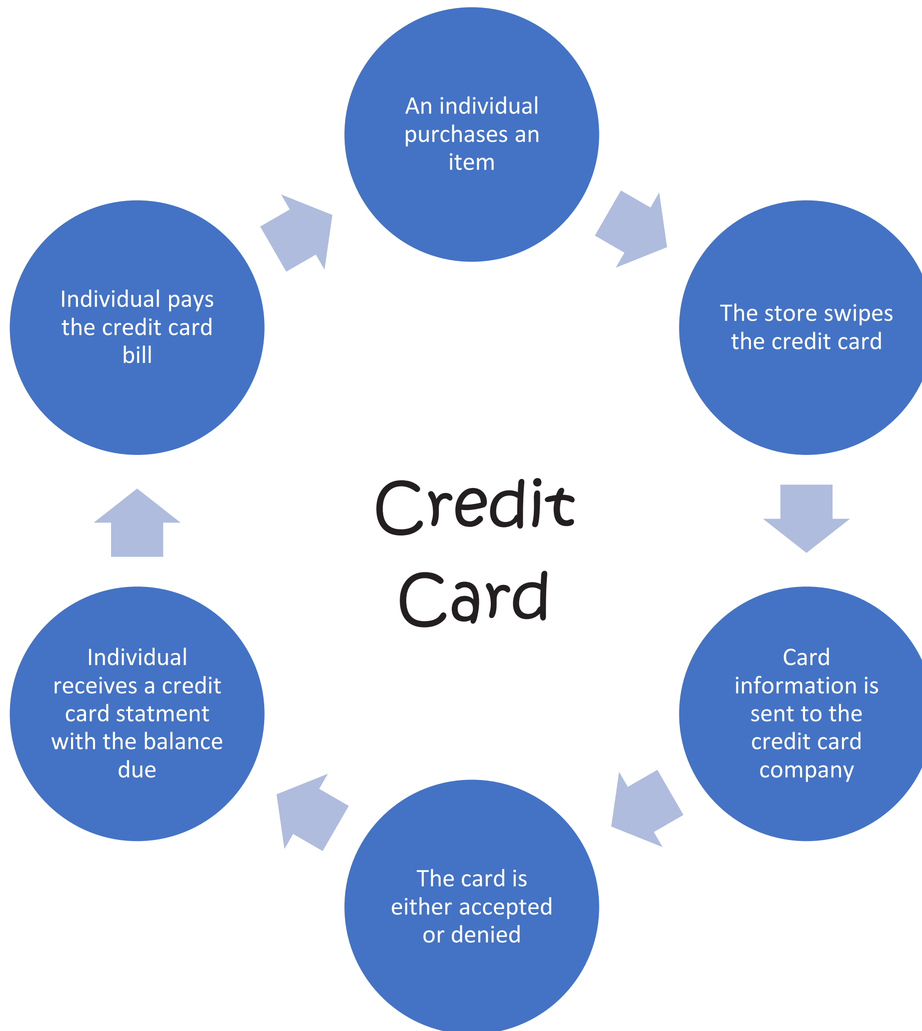
Bad debt, on the other hand, finances something that will not increase your wealth or have long-term value. Some view a loan for a brand-new car as bad debt because of the depreciation, or loss of value, of vehicles. If you purchase a new vehicle with a loan, instead of a cheaper used car you can afford without a loan, then you are paying the higher price plus interest. You are getting short-term value from the car and it can help fulfill a need for transportation.

Credit card debt is one of the worst forms of debt. Very seldom are credit cards used to purchase something that will provide long-term value. Additionally, you incur interest charges if the balance is not paid off in full within a month of purchase. If the interest rate is 18-20% (which is typical on a credit card), then the monthly payment can increase very quickly. Also, credit card companies charge a late fee if you happen to be late on a payment.

Name: ___________________________________

How Does a Credit Card Work?

Below is a basic diagram of how a credit card works:



With your partner, think of a scenario where someone purchases an item with a credit card. It can be either online or in the store. Identify the item being purchased and how much it costs. Assume the credit card has been accepted as payment. Calculate how much the 18% interest rate will be if it takes the individual 3 months to pay off the item on the credit card. What is the final purchase price of the item? Fill in the diagram on the next piece of paper with your findings.

Item being purchased: ____

Initial Cost:

Purchased In-Store or Online? Any shipping costs?

How much will interest be at 18%?

Final Cost of Item (with interest and shipping)?

Name: ____

Student Instructions – Who will you lend to?

You are part of a loan committee at a local bank. The president of the bank says that you have a total of $100,000 for loans this month. There are five applicants all requesting to borrow money. You will select who receives the loan(s). Make sure you provide evidence for how you arrived at your decision.

Fill in the chart on the back of this paper. Write down all specific and important information each individual tells you. You will need this information when your committee discusses who to give the loan to.

Remember the 4 C's of credit are:

- Character
- Capacity
- Capital
- Collateral

Rank		Applicant #1	Applicant #2	Applicant #3	Applicant #4	Applicant #5
	Purpose of loan					
	Amount					
	Credit Score					
	Credit History					
	Concerns					
	Strengths					

What is your decision? Who should receive the loan(s)?

What additional information would have been helpful to know about the applicant?

Teacher Instructions - Who will you lend to?

Overview:

The purpose of this activity is for students to get a better understanding of the lending process and how everyone's situation is different.

Steps for the Activity:

1. Select 5 student volunteers from the class. They will each receive one "Borrower Information Card." Ask each student volunteer to read the information on the card.
2. The rest of the class becomes the loan committee for the bank.
3. The president of the bank (you) says that there is a total of $100,000 for loans this month. There are five applicants requesting to borrow money. The loan committee decides (based on the evidence provided in the scenarios) who should receive the loan(s).
    a. Before beginning the activity, briefly discuss the 4 C's of credit and remind students that these are important attributes lenders look for in their applicants.
    b. Each individual will provide information as to why they need the loan. The committee should fill in their chart (found in the Student Instructions) with information on each applicant.
    c. After listening to each applicant, the loan committee (as a group) discusses the various applications and ranks them in order from strongest to weakest (1 = strongest, 5 = weakest).
    d. The loan committee then decides which individuals' loans should be granted. Remind students that the bank can only lend a total of $100,000.
4. After completing the activity, discuss with students how important it is to maintain good credit. It is equally important to manage debt wisely.

Borrower Information Cards

Borrower Information: Donovan Jones, age 32

- You want to borrow $100,000 to buy a house.
- The house is about 20 years old and needs some renovations.
- Your wife is a stay-at-home mom and cares for your 5-year-old daughter.
- You graduated from college and have a professional job that pays $75,000 per year.
- You have saved $20,000 to put as a down payment on the loan.
- You have a 401(k)-retirement account.
- You previously had a car loan and paid it off. Your car is worth $15,000. Your credit score is 798.
- You and your wife owe $60,000 on student loans, but you are current with your student loan payments.

Borrower Information: Chad Overton, age 24

- You want to borrow $25,000 for a SUV. You have saved up $850 for a down payment.
- You graduated from college and just accepted a new job as a sales representative. The new job pays $30,000 per year.
- You have several speeding tickets on your driving record. The new company has already informed you that you will be driving long distances for work.
- You have around $40,000 in student loan debt but have not had to start making payments yet.
- You do not own a house or have any assets of real value.
- You are single and your credit score is 603.

Borrower Information: Isa Perez, age 27

- You want to borrow $80,000 over 10 years to start a new business.
- Last year you graduated from a local community college with an associate degree in Culinary & Hospitality.
- You worked part-time while attending college and have no student debt.
- Your uncle was a very successful restaurant owner and has agreed to personally finance the rest of the money needed to start the business. He is also helping advise you with the business each step of the way!
- You had a car loan and paid it off. Your car is valued at $20,000.
- You are single, no children. Your credit score is 763.

Borrower Information: Marielle Martinez, age 46

- You want a $75,000 15-year home equity loan to remodel your kitchen and bathroom. Your house also needs new windows.
- The current value of the house is $250,000 and you owe $220,000 on the mortgage.
- You are a restaurant manager and earn $45,000 annually. You are married and have two young children. Your husband has a part-time job and earns roughly $40,00, depending on the amount of weekly overtime.
- You and your husband owe $30,000 on two auto loans and $25,000 on a student loan. You lost your job in your early 20's and defaulted on a car loan.
- Your credit score is 729, your husband's is 735. You have $20,000 in your savings account.

Borrower Information: Paul Pottawatome, age 19

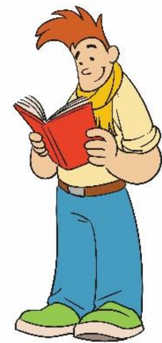
- You want to borrow $17,000 for a used Ford pick-up truck.
- You have had a steady part-time job since 16. Last year you earned $18,000 from your job and picked up extra work during the summer months.
- You haven't had a loan before and don't have any student loan debt.
- You have just been accepted into the IBEW Local 146 electrical apprenticeship and begin work in three months.
- You are single and do not have any children. You currently live at home with your parents.
- Your credit score is 701.

Source: High School Economics, 3rd Edition, Council for Economic Education

Name: ______________________________________

What do you think?

Below are six scenarios. Read through each scenario and determine if the individual should borrow money or not. After reading the scenarios, fill in the chart below.



Scenario 1: Maria always got good grades and recently graduated from high school. She has done a lot of research and is interested in becoming a physical therapist. She has been working at her part-time job over the summer and has saved up most of her money to buy textbooks and other school supplies. Physical Therapists can earn more than $50,000 a year after completing their education. Maria's parents cannot afford to help her pay for college. Maria has been researching student loans and wants to know if she should take out a loan to pay for her education. What do you think? Why?

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Scenario 2: Eugene has been waiting years to find a copy of the leather-bound first edition of his favorite book. He just found a copy at the local bookstore for $250. Very few copies of the first edition exist and this one is in excellent condition. He doesn't have enough money in his savings account and is considering using his credit card to buy the book. What do you think? Why?

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Source: Learning, Earning, and Investing for a New Generation. Council for Economic Education.

Scenario 3: Jen has been late for work three times in the last month because of car problems. Her boss understood the first time around, but not anymore. She is a single mother with two young children. She has spent a lot of money fixing up her old used car, but it costs too much money now. She can't afford to lose her job, she really likes the company and is able to provide for her family with her earned income. She is considering getting a loan from the bank so she can get a newer used car. What do you think?

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Scenario 4: Jay has three credit cards, all of which have balances. He believes you only live once and he doesn't want to miss out on anything. His friends are planning a trip, but he doesn't have any money in his savings account. He just received an offer from another credit card in the mail. The credit limit is high enough on the new card to cover the cost of the trip. Should he open up another credit card account so he can go on the trip with his friends? What do you think?

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Scenario 5: Rudy has been eyeing a vehicle at a local car lot. He has always wanted a truck and this one is sweet! His car has been running fine, but this is one of his dreams. He just started work as a salesman a few months ago and a lot of his income comes from commissions. In other words, the more he sells, the more money he makes. The company told him sales typically slow down from the holiday season until the beginning of the new year. He knows the truck payments will be pretty high. Should he take out a loan at the bank? What do you think?

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Scenario 6: Sierra has wanted a dog, preferably a puppy, for a really long time. Her parents told her if she saved enough money she could get one from the local animal shelter. However, she just found out that puppies are much more expensive than a dog who is older. Sierra has a part-time job but hasn't saved up enough money for a puppy. She has a credit card with a high enough credit limit to purchase the puppy but it may take 3 or 4 months to pay for it. Should she buy the puppy and put it on her credit card? What do you think?

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Who do you think has the strongest case for getting a loan? Why? Be prepared to defend your answer in the class discussion.

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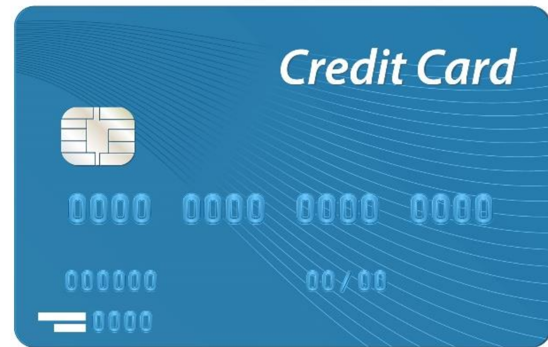
Source: Learning, Earning, and Investing for a New Generation. Council for Economic Education.

The History of Credit Cards



Have you ever wondered how credit cards got their start? According to Encyclopedia Britannica, the use of credit cards originated in the United States during the 1920s, when individual companies, such as hotel chains, department stores, and oil companies began issuing them to customers for purchases made at those businesses. This use increased significantly after World War II.

In 1950, the Diner's Club card emerged and became the first card accepted at a multitude of locations. The American Express card followed in 1958. Under this new system, credit card companies charged their customers an annual fee for using the card and billed them monthly. They also charged merchants, or companies, fees to accept the credit cards as payment. These service fees averaged 4-7% of the total amount charged.

When the bank credit card system was established, consumers could pay their charges when the monthly bill was received or in monthly installments with interest. In 1958, Bank of America began offering cards on a state-by-state basis, meaning that the cards could only be used in the state issuing the card. This evolved into a national system allowing individuals to make a purchase anywhere, regardless of the location. Eventually the effort grew into an international system and is now available all over the world

Store credit cards are another form of credit cards. These cards are issued by a retailer, like the original credit cards of the 1920s, and they have similar restrictions as those original cards, such as only being valid at participating stores or locations.

It wasn't until the late 20th century that credit card usage significantly increased. Unfortunately, that led to many consumers spending more than they were earning. Users who could not pay off their monthly balances incurred high interest rates, sometimes penalty rates, and their accounts became delinquent. The Global Recession, beginning in 2008, further added to the problem. As unemployment rates increased, consumers relied more heavily on their credit cards to make necessary purchases. In 2009, the Credit Card Holder's Bill of

Sources: Encyclopedia Brittanica, Experian, The Federal Reserve Bank

Rights Act was created to protect consumers. It also restricts unfair or abusive practices by credit card companies.

Use of plastic cards has become a regular routine for many consumers in the United States. On average, individuals have three credit cards and carry an average of thousands of dollars across all on their cards. According to the Federal Reserve Bank, credit card debt in the United States topped $1 trillion in 2017.

Credit cards continue to evolve with technology and have become quite sophisticated. In the 1980's, magnetic strips were placed on the back of cards which allowed special computer equipment to read the card and process the transaction. Since then, credit cards have evolved. Cards now use embedded computer chips, called EMV smart chips, that allow for data to be encrypted each time the card is used. The credit card industry continues to change as it adopts newer technologies, such as mobile wallets, wireless payments, and countless other items. One question remains: will consumers become as smart as the technology and reduce their reliance on credit cards?

Here are some good credit card habits to keep in mind:

1. Sign your card as soon as you receive it.

2. Never give your credit card number over the phone unless you called a number you know is secure. Certainly, never give it to anyone who calls you.

3. Ignore any credit card offer that requires you to spend money up front or fails to disclose the identity of the credit card issuer.

4. Make certain to get your card back after you make a purchase.

5. Always keep a list of your credit cards, credit card numbers, and toll-free numbers from the issuing bank just in case your card is lost or stolen.

6. Check your monthly statement to make certain all the charges are accurate. Immediately notify the issuer if there are any errors or unauthorized charges.

Credit Card Comparisons

If you decide to apply for a credit card, be sure you understand all the credit talk, referred to as "jargon." You should know all the fees the card might charge, and if there is a "grace period" on the card. The grace period is the time during which you can pay your credit card bill without having to pay interest on new charges. (If you carry a balance on your card, there is no grace period).

Here's your chance to investigate and compare cards. You will need to get information from two credit card offers. You can either search the internet or see if your family has received any credit card offers in the mail. Use the chart below to compare both and answer the questions that follow.

	Credit Card A:	**Credit Card B:**
Annual fee		
Interest rate (APR)		
Grace period		
Minimum payment		
Late fee		
Other fees		
Rewards or Points		

1. Which card do you think has the better offer? Why?

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2. What costs will you incur every time you use the card?

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3. What costs will you incur if you carry a balance to the next month?

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4. Are there any benefits to the card you have selected?

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Source: Financial Fitness for Life: Student Workbook, Grades 6-8, Council for Economic Education

Managing Debt

Here are some tips for managing debt:

1. **Know who and how much you owe**. Make a list of how much you owe, and to whom. Keep track of your monthly payments and when those payments are due. Update the list periodically as your debts change.

2. **Pay your bills on time each month.** Missed and late payments have consequences including late fees, increased interest rates, and higher finance charges. These additional charges add to your debt making it harder to pay off.

3. **Use technology to help you pay your bills.** Use the calendar on your computer or smartphone to track when you need to pay your bills. Set an alert to remind you several days before your payment is due. Some people use an "auto pay" feature for bills they pay every month. If you miss a payment, don't wait until the next due date to make a payment, send it as soon as you can.

4. **Make at least the minimum payment**. If you can't afford to pay anything more, at least make the minimum payment. The minimum payment doesn't help you make progress in paying off your debt, but it saves you from late fees and keeps your account in good standing. When you miss payments, it gets harder to catch up and your accounts could go into default, meaning that a collection agency will get involved. That negatively impacts your credit score and adds even more fees to the debt you already owe.

5. **Decide which debts to pay off first**. Prioritize your debt payments to save money over time. Let's say you have a car loan with a 6% interest rate, and credit card debt with a 19% interest rate. You should pay off the credit card debt first because it has a higher interest rate. If you have several credit cards, pay off the one with the highest interest rate first because it is costing you the most money.

6. **Use an emergency fund to fall back on.** Keep a savings account and regularly put money in it. Only use it when you need it. This helps if you ever need some extra cash. Even a small emergency fund can help cover unexpected expenses like a flat tire, a broken leg, or a shattered phone screen. Experts advise to save up six months of living expenses in case there is ever an emergency.

Now, let's put these tips to use. Here is a list of Jerome's current debts. He needs help figuring out how to manage and reduce his debt.

I owe money to:	Amount	Due Date	Interest Rate
Dad	$200.00	3 months	0%
Julie (sister)	$75.00	2 months	0%
Best Buy Credit Card	$115.00	10th of the month	15%
VISA Credit Card	$350.00	20th of the month	19%
Gym Membership	$35.00	15th of the month	0%
Master Card	$200.00	5th of the month	0%
Rent	$300.00	1st of the month	0%
Phone/Cable/Internet	$210.00	19th of the month	0%

1. Two of his credit cards, the VISA and Master Card, require a 10% minimum monthly payment. How much is the minimum payment for each card this month?

2. Jerome has decided to only have one credit card. Which one should he keep, VISA or MasterCard? Explain why.

3. Jerome has a savings account with a balance of $4,200. He usually spends about $200 each month for gas, utilities, clothes, and entertainment. His bank suggested he keep enough cash in his account to pay for at least three months' worth of expenses. Does he have enough saved? Explain your answer.

4. If Jerome has some extra cash in his savings, which debts should he pay off first? Explain.

5. What are some ways that he can prevent making late payments on his six-monthly debts?

Irby, LaToya. "Steps to Managing Your Debt." *The Balance*, The Balance, 3 Dec. 2018, www.thebalance.com/how-to-manage-your-debt-960856.

Impact of a Bad Credit Report

Credit scores can affect an individual's ability to make large purchases such as a house or vehicle. Credit reports are very important to both creditors and lenders. But here is a list of other things that can be impacted if an individual has bad credit.

- ✓ **Car insurance**. Insurance companies consider a person's risk of responsibility along with their ability to pay on time. So, it's not surprising that in 47 states an individual's credit rating can be used to determine what rate will be charged for insurance. The higher a perceived risk, the higher the rate to insure the individual. This means your insurance payments will cost more until your credit score improves – even if you haven't had any accidents or claims.

- ✓ **Mortgage loans**. Most individuals apply for a loan when purchasing a home. The financial institution will definitely check credit scores! If an individual has bad credit, or a low credit score, they will likely be denied for a loan. It can also result in a much higher interest rate. The amount of interest you pay is based on your level of risk and the current market rate. The worse your credit is, the higher your level of risk is, and the higher your interest rates will be. This difference can amount to tens of thousands of dollars over the course of a 30-year mortgage.

- ✓ **Vehicle loans**. This is another item for which most people need a loan. Financial institutions will check your credit score before approving your loan application. If the bank is concerned that it is a risky loan, they may increase the interest rates by 2%. That is a lot of money that folks with good credit don't get charged.

- ✓ **Service providers**. Many service providers (like those for your cell phone, internet, and cable) check your credit score. They assess your risk level and if you can pay your monthly bill. Today, many cell phone bills include the cost of the phone with the monthly service fee, causing them to be more cautious.

- ✓ **Jobs**. Under the Fair Credit Reporting Act, potential employers can check your credit when considering you for a position. They must have your written approval before obtaining the report. However, if you refuse, then there is a good chance you may not get the job.

"The 6 Biggest Ways Bad Credit Can Mess Up Your Life." *Yahoo! Finance*, Yahoo!, 21 Jan. 2013, finance.yahoo.com/news/6-biggest-ways-bad-credit-110012930.html.

Name: ___________________________________

The Cost of Bad Credit

Making good money choices can improve your credit score, but bad decisions can hurt it – and cost you more money. As you have learned, if a lender perceives an individual to be risky, they will charge higher interest rates. Having bad credit can also make it impossible to get a loan.

The table below contains three key items to calculate the cost of a three-year $28,000 loan: a range of credit scores, the annual percentage rate (APR), and the monthly payment.

Credit Score	APR	Monthly Payment	Total Interest Paid
720-850	7.126%	$773.00	$2,843
690-719	8.032%	$784.00	$3,215
660-689	9.785%	$804.00	$3,951
620-659	11.745%	$827.00	$4,786
590-619	15.171%	$869.00	$6,272
500-589	15.999%	$879.00	$6,640

Based on this chart, an individual with a high credit score pays $773 per month and a total of $2,843 in interest for a three-year loan. A customer with a low credit score pays $106 more per month and $3,797 more in total interest for the exact same loan. That's a huge difference!

Create three graphs charting the information above. What conclusion can you draw from the data and your graphs?

Graph 1: Compare Credit Scores to Interest Rates

Source: https://www.saveandinvest.org/sites/default/files/Credit-Score.pdf

Graph 2: Compares Credit Scores to Monthly Payments