

# CREDIT

## ACTIVITY 1



### The ABCs of Credit

#### RECOMMENDED TIME

Allow 50-60 minutes. Required time may vary depending on the audience.

#### OBJECTIVES

Participants will:

- Define credit.
- Understand the impact of the Five Cs of Credit.
- Discuss the pros and cons of using credit.
- Understand decision-making techniques in using credit.

#### MATERIALS NEEDED

- Overhead projector and screen\*
- Overhead transparencies and handouts for the activity
- Flipchart, blank transparencies, or white board
- Overhead (or other appropriate) marking pens

#### ADVANCE PREPARATION NOTES

Review the activity plan. Think about the audience, and decide whether to present the total activity or to use parts of this activity in combination with other activities.

For clarity, use print instead of script when writing on a flipchart, white board, or transparency.

The suggested dialogue in the delivery notes does not always mirror the wording on a transparency. Try to vary the dialogue, rather than reading transparencies verbatim.

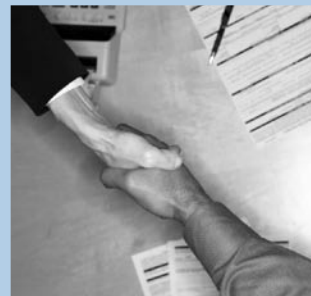
This activity uses handouts. Have sufficient copies for all participants; a few extras provide good insurance.

Credit is of great interest to everyone. Facilitators cannot be expected to know everything about credit. Be honest with all questions. If you don't know the answer to a question, be honest and explain, *"I do not know the answer to your question. However, I will find the answer and get back to you."* Be sure to write down the question and follow through when you commit to finding an answer.

\* If an overhead projector isn't available, consider making photocopies of the overhead transparencies for handouts instead.

# CREDIT

## ACTIVITY 1 - DELIVERY NOTES



### The ABCs of Credit

#### Presentation Opening

- Welcome the participants.
- Introduce yourself briefly.
- If this is the first meeting with the class or group, do a brief round of introductions by everyone.
- When introducing yourself, print your name where participants can see and refer to it during the session. Some people may be a little nervous and may not remember your name. Just as you want to use their names, encourage them to call you by your name.

#### Activity Overview

Review the topics for discussion in this activity:

- What is Credit?
- Five Cs of Credit
- Pros and Cons of Using Credit
- The Big Decision—Should I Use Credit?

Write the terms “**credit**” and “**creditor**” on the board, flipchart, or blank transparency, leaving enough space to add words or short phrases around them.

- Ask participants to define the two terms.
- Write down the responses using one-word descriptions, placing these words around the appropriate term.

Use “**Handout 1: Credit Definitions**” to be sure all participants understand the vocabulary.

- **Credit** = Trust given to another person for future payment of a loan, credit card balance, etc. This person is typically called the “borrower.”
- **Creditor** = A person or company to whom a debt is owed. This person or company is typically called the “lender.”

Take each definition, and ask participants to identify the words they feel are important in understanding and using credit. As the words are identified, showcase them by underlining or some other method. The key to this discussion is ensuring that participants recognize the impact of various words within the definitions to the successful use of credit.

Ask the participants whether they have heard the expression, “The Five Cs of Credit.” Explain that the five Cs represent characteristics of a person who is a good candidate to receive credit.

Ask participants to share what they think the five Cs represent, and record the responses. If participants have trouble thinking of “C” words, encourage them

### Visual Aids

#### Handout 1 Credit Definitions

# CREDIT

## ACTIVITY 1 - DELIVERY NOTES



to think about any things that would be important in the use of credit, and then help them transfer those terms into “C” terms.

After a brief period of discussion, use **“Overhead 1: The Five Cs of Credit”** to define and discuss each of the three terms. A few talking points might include the following:

### **Capacity**

- Capacity to repay is the most critical of the five factors. It is the primary source of repayment – existing cash and your income. Potential lenders also will want to know about other possible sources of repayment, such as investments that can be liquidated if needed to make a repayment.

### **Capital**

- Capital is the money you personally have and is an indication of how much you have at risk should you experience job or other income loss.

### **Collateral**

- Collateral or guarantees are additional items of value you can provide the lender. Giving a lender collateral means that you pledge an asset you own, such as your home, to the lender with the agreement that it will be the repayment source in case you can't repay the loan. A guarantee, on the other hand, is just that – someone else signs a guarantee document promising to repay the loan if you can't. Some lenders may require such a guarantee in addition to collateral as security for a loan.

### **Conditions**

- Conditions describe the intended purpose of the loan. Will the money be used for personal use, a car, a home, or home repairs?

### **Character**

- Character is the general impression you make on the prospective lender and is based on your credit report and credit history (your past use of credit).

Ask for a show of hands of who uses credit.

Distribute **“Handout 2: When to Use Credit”** to each participant. Divide the group into teams of two to three. Ask half of the teams to think of when it is a good idea to use credit, and have the other half think about when it is not a good idea to use credit.

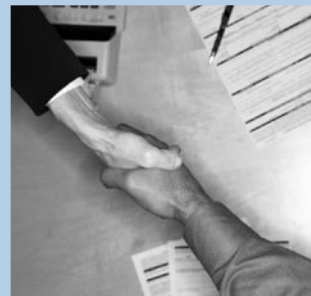
## Visual Aids

**Overhead 1**  
The Five Cs of Credit

**Handout 2**  
When to Use Credit

# CREDIT

## ACTIVITY 1 - DELIVERY NOTES



After a few minutes, call time. Ask for one example from each team. As reasons are shared, gather consensus by asking if the full group agrees. Continue until all reasons are shared. Encourage everyone to add the various reasons to their individual handouts. Responses may vary but should include some of the following:

### When to Use Credit

- Great to have in times of emergencies, family crisis, unexpected illness, etc.
- Could be a convenient way to manage income by keeping track of spending—provided bills are paid in full each month.
- Allows the benefit of having large items such as a home, car, and appliances while still paying for them.

### When *Not* to Use Credit

- Can lead to spending beyond one's means because it is so convenient and easy to use.
- If one is tempted to live on credit.
- When credit takes away the opportunity to use the income that pays off the credit, which is needed for other things.
- When there is concern that the credit cards and credit account numbers may be stolen and used by others.

Now that participants have a better understanding of when to use and not to use credit, ask them what questions they should ask themselves before using credit. Use **Handout 3** to record the questions.

As questions are added, get consensus from the group. If everyone agrees that the question is a good one to ask, place a checkmark to the left of it. If there is doubt about a question, allow for discussion to establish consensus

Questions may vary but should include some of the following:

1. Is this a necessity or luxury item?
2. Do I really need this good or service?
3. Can I meet my obligation to pay for it without hurting my existing cash flow?
4. Do I really understand all of the terms and obligations that I must agree to when purchasing this?
5. Do I realize that this would cost less if I paid cash?
6. Have I really thought about the consequences of making this purchase?
7. Can I repay the debt in a timely fashion to avoid finance charges?

## Visual Aids

### Handout 3

Questions to Ask  
before Using Credit

# CREDIT

## ACTIVITY 1 - DELIVERY NOTES



### **Closing**

In closing, remind everyone that credit is a valuable financial tool that must be used wisely.

Thank everyone for their participation, and encourage them to return for additional sessions. If such sessions are planned, you might provide a “sneak preview” of any activity to come.

### **Visual Aids**

# CREDIT

## ACTIVITY 1 - HANDOUT 1



### CREDIT DEFINITIONS

#### **Credit**

Trust given to another person for future payment of a loan, credit card balance, etc.

#### **Creditor**

A person or company to whom a debt is owed.

**CREDIT**  
**ACTIVITY 1 - OVERHEAD 1**



**THE FIVE Cs OF CREDIT**

**C = Capacity**

**C = Capital**

**C = Collateral**

**C = Conditions**

**C = Character**

# CREDIT

## ACTIVITY 1 - HANDOUT 2



### WHEN TO USE CREDIT

**Can you describe a situation when it is a good time to use credit and when it is NOT a good time to use credit?**

**Good time to use credit**

**Time to NOT use credit**

# CREDIT

## ACTIVITY 1 - HANDOUT 3



### QUESTIONS TO ASK BEFORE USING CREDIT

✓	QUESTIONS
	1.
	2.
	3.
	4.
	5.
	6.
	7.