

CREDIT

ACTIVITY 3



Establishing Credit

RECOMMENDED TIME

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

OBJECTIVES

Participants will:

- Recognize the types of available credit.
- Recognize sources of credit.
- Understand the process of applying for credit.
- Be aware of credit safeguards.
- Be sensitive to questions to ask before using credit.

MATERIALS NEEDED

- Overhead projector and screen*
- Overhead transparencies and handouts for the activity
- Sample credit applications

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.

The wording 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.

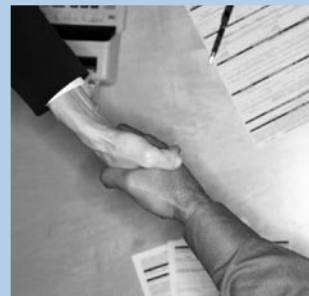
Collect a variety of credit advertisements and credit applications to use as resource samples in this activity. Be sure to include a variety of applications from banks, department stores, gas stations, and other places the participants would normally do business with.

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 up front and explain, *"I'm sorry, I do not know the answer to your question. However, I will find the answer and get back with 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.

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ACTIVITY 3 - DELIVERY NOTES



Establishing 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:

- Types of Credit
- Applying for Credit
- Credit Safeguards
- Questions to Ask When Applying for Credit

Use **“Handout 1: Types of Credit”** as a matching exercise to build an awareness of the different types of credit available to consumers.

- As the definition of each type of credit is identified, draw a connecting line between the term and the description. **(Answers: 1. Revolving Credit; 2. Secured Credit; 3. Sales Credit; 4. Single Payment Credit; 5. I.O.U.; 6. Installment Credit; 7. Other Types of Credit; 8. Cash Credit)**
- Caution participants that lenders often have unique names for their credit options, so participants will not always see these exact terms. Therefore, it is their responsibility to know the descriptions and ask questions prior to making any commitment.
- Hold up sample applications to illustrate the types of available credit. Do not distribute at this point; a sample application will come into play later in the activity.

Ask for a show of hands of participants who have applied for credit.

- Ask them how stressful they felt it was to apply for credit, on a scale of 1 to 5, with 1 being low and 5 being high.
- Informally encourage participants to share some of their experiences.
- In discussions such as this, be careful not to pass judgment on any contribution made by participants.

Ask those participants who have applied for credit to share where they went to obtain credit. Allow for a few responses to establish a participatory environment and then move to the next step.

Visual Aids

Handout 1 Types of Credit

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ACTIVITY 3 - DELIVERY NOTES



Use **“Overhead 1: Sources of Credit”** to identify places that an individual can go to obtain credit.

- The overhead lists six sources. Encourage participants to add additional sources.
- Be careful not to pass judgment on sources that are recommended.
- Responses will vary but should include some of the following: consumer finance companies, insurance policies, check-cashing stores, family and friends.
- Before moving on, ask the question at the bottom of the overhead, **“What sources should a person avoid when seeking credit?”**
- Next, you will discuss the dangers of loan sharks, cash advances from credit cards, pawnbrokers, and other such operations. These sources provide credit with particularly high interest rates and make it difficult, if not impossible, to build wealth.

Ask the questions:

- Are all credit sources reliable?
- Should all credit sources be trusted?

Encourage discussion. Take care to avoid too many “war stories” from participants.

Tell participants that they will soon look at a sample credit application. Beforehand, though, they will become aware of warning signs of unfair lending practices that may or may not be readily visible. They want to be aware of these dishonest practices before they get into trouble with one of them.

Distribute **“Handout 2: Steps to Take to Avoid Abusive Lending.”** Cover the content with participants so that they are aware of what to watch out for and what to do if they are targeted. These steps can also be applied to predatory lending.

After the discussion, encourage participants to keep the handout handy and check carefully for such practices before agreeing to any type of credit.

Distribute **“Handout 3: Parts of a Credit Application and Sample Credit Application”** to each participant.

- Explain that the group will use the handout to compare and discuss information on typical credit applications.
- Emphasize that the information may be located in different physical spaces on different applications. The placement is the creditor’s choice, and is not mandated by law.

Move through the handout by identifying each section and allowing participants sufficient time to locate the information on the sample

Visual Aids

Overhead 1
Sources of Credit

Handout 2
Steps to Take to Avoid
Abusive Lending

Handout 3
Parts of a Credit
Application and Sample
Credit Application

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ACTIVITY 3 - DELIVERY NOTES



application (on the second page of the handout).

- Respond to questions they raise and encourage discussion.
- Encourage participants to keep the handout for future reference should they need to complete a credit application.

Use **“Handout 4: Credit Safeguards”** to review critical legal protection afforded to all consumers when using credit. Sources of information on the Truth in Lending Act and the Equal Credit Opportunity Act are in the resources in *Appendix 4*.

Stress that although all creditors are required to provide the applicant with information about the loan, it is also the applicant’s responsibility to ask questions before making any commitment.

- Use **“Handout 5: Questions to Ask When Applying for Credit”** to emphasize those types of questions.
- Ask participants whether additional questions should be asked. Add those questions to the list.

Closing

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

Handout 4
Credit Safeguards

Handout 5
Questions to Ask When
Applying for Credit

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ACTIVITY 3 - HANDOUT 1



TYPES OF CREDIT

Can you match the type of credit with its correct description?

TYPES	DESCRIPTION
Cash Credit	1. A predetermined line of credit that is constantly renewed as it is repaid. _____
Sales Credit	2. Requirement to promise something of value to guarantee repayment of credit. _____
Secured Credit	3. Buying goods and services now with the promise to pay for them in the future. _____
Revolving Credit	4. Buying goods and services now with the promise to pay "in full" at a predetermined time. _____
I.O.U.	5. A written promise to pay a debt. _____
Single Payment Credit	6. Buying goods and services with the agreement that payment will be made at fixed intervals over a period of time, with each payment carrying interest charges. _____
Installment Credit	7. Utility bills, rent, and similar payments that can negatively impact your credit if not paid. _____
Other Types of Credit	8. Receiving money as a loan. _____

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ACTIVITY 3 - OVERHEAD 1



SOURCES OF CREDIT

Banks
Credit
Unions

Retail
Stores
Finance
Companies

Savings & Loan
Associations
Internet
Stores

What are other sources of credit?

What sources of credit should be avoided? Why?

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ACTIVITY 3 - HANDOUT 2



STEPS TO TAKE TO AVOID ABUSIVE LENDING

1. Have you shopped around for the best deal?

Rates, fees, costs, etc. vary depending on the financial institution, the type of loan, your credit history, your ability to repay, etc. Call around to several financial institutions, explain what you want, and discuss interest rates, fees, options, etc., that are available.

2. Do you feel the lender pressured you to take the loan?

A loan is abusive if the lender charges more than a reasonable amount for your loan. Many times, the lender uses aggressive sales techniques to pressure the individual. A “good deal” today should be a “good deal” tomorrow. Talk to people you trust and ensure that the rate promised to you verbally is the same rate printed on the loan document itself.

3. Do you understand the terms of the loan?

NEVER sign any agreement that you do not understand. If you do not receive a satisfactory answer to your question, ask someone you trust to review the document and give you advice. BEFORE you agree to any loan, read the fine print; make sure you understand all of the terms and conditions of the loan.

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ACTIVITY 3 - HANDOUT 3 - PG. 1



COMMON PARTS OF A CREDIT APPLICATION

CATEGORIES	
Reason for Loan	Current Debts
	List of current creditors and amount owed to each.
Personal Identification Information	Credit References
<ul style="list-style-type: none"> • Name • Address • Phone Number (day and night) • E-mail Address • Social Security Number 	List of businesses where current credit exists, to demonstrate bill-paying habits.
	Collateral (for some applications)
Employment Information*	There may be a requirement to use something of value as security so that the credit will be repaid.
<ul style="list-style-type: none"> • Place of Employment • Length of Employment • Job Position • Salary <p><i>*If you've had your current job for less than five years, you will probably be asked about previous jobs.</i></p>	Bank References
	Bank where individual does business, which can document current individual's financial status.
Mortgage/Rental Information	Signature and Date
Current information about length of residence, monthly housing costs, etc.	<ul style="list-style-type: none"> • Current date • Signature (print + script)
Documentation Required (for some applications)	
May be a requirement to "show" documents such as last bank statement, copies of loans, etc.	

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ACTIVITY 3 - HANDOUT 3 - PG. 2



SAMPLE CREDIT APPLICATION

CREDIT APPLICATION				
Seller	Store#/Location	Salesperson#		
Total Price: \$	Down Payment: \$	Finance Amount: \$	Special Program	Approval#

PLEASE PRINT CLEARLY. COMPLETE ALL BLOCKS AND SIGN APPLICATION.

SECTION A - INFORMATION REGARDING PRIMARY APPLICANT						
First Name	Middle	Last Name				
Social Security Number			Date of Birth			
Street Address	City	State	Zip Code	How Long?	<input type="checkbox"/> Own <input type="checkbox"/> Rent <input type="checkbox"/> Other	Home Phone
Employer/Business Name	Job Title	Salary	How Long?	Work Phone		

SECTION B - INFORMATION REGARDING JOINT APPLICANT						
First Name	Middle	Last Name				
Social Security Number			Date of Birth			
Street Address	City	State	Zip Code	How Long?	<input type="checkbox"/> Own <input type="checkbox"/> Rent <input type="checkbox"/> Other	Home Phone
Employer/Business Name	Job Title	Salary	How Long?	Work Phone		

SECTION C - BANK REFERENCE			
Where Do You Bank?	Location	Account# Account#	<input type="checkbox"/> Checking <input type="checkbox"/> Savings

SECTION D - CREDIT REFERENCES			
(1) Creditor Name	Balance	Monthly Payment	Account#
(2) Creditor Name	Balance	Monthly Payment	Account#
(3) Creditor Name	Balance	Monthly Payment	Account#

IDENTIFICATION (Valid Driver's License, State ID or Military ID)							
Primary Applicant ID				Joint Applicant ID			
<input type="checkbox"/> Driver's License	State	Identification No.	Exp. Date	<input type="checkbox"/> Driver's License	State	Identification No.	Exp. Date
<input type="checkbox"/> State ID				<input type="checkbox"/> State ID			
<input type="checkbox"/> Military ID				<input type="checkbox"/> Military ID			

Notice to Applicant: A consumer report may be requested with the processing of your credit. Upon request, you will be informed whether or not a consumer report was requested and, if such report was requested, informed of the name and address of the consumer reporting agency that furnished the report. Subsequent consumer reports may be requested or utilized in connection with an update, renewal or extension of credit. I/We authorize you to investigate credit and employment history and understand that if I/we do not qualify for the requested amount, you may consider me for a lesser amount.

BY YOUR SIGNATURE BELOW, YOU ACKNOWLEDGE THAT YOU HAVE READ AND RECEIVED A COPY OF THE AGREEMENT BEFORE MAKING ANY PURCHASES UNDER THIS ACCOUNT.

X _____	X _____
Signature of Applicant	Signature of Co-Applicant
Print Name	Print Name
Date	Date

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ACTIVITY 3 - HANDOUT 4



CREDIT SAFEGUARDS

These laws are in place to protect you, the consumer. They are important to know when applying for credit.

Truth in Lending Act

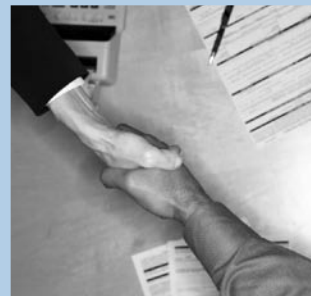
Consumers must be fully informed about the cost and conditions of borrowing.

Equal Credit Opportunity Act

Prohibits discrimination in giving credit on the basis of sex, race, color, religion, national origin, marital status, age, or receipt of public assistance.

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ACTIVITY 3 - HANDOUT 5



QUESTIONS TO ASK WHEN APPLYING FOR CREDIT

1. What is the **annual fee**, if any?
2. What is the **annual percentage rate (APR)**?
3. When are **payments** due?
4. What is the **minimum payment** required each month?
5. Is there a **grace period**?
6. Are there **other fees** associated with the credit, such as annual fees or minimum finance charges?
7. What is the **credit limit**?
8. What are the penalties for **late or missed payments**?
9. What are the **terms and conditions** of the credit?
What else is included in the fine print?