

CREDIT

INTRODUCTION



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SECTION OVERVIEW

More people are using more credit every day. Credit has become more than a convenience; for many families, it's a necessity. Just consider these facts:

- More than 73 percent of American families use credit cards regularly.¹
- In 2003, U.S. consumers charged nearly \$1.3 trillion on credit cards, which equals about \$108 billion per month.²
- Credit cards are now being used more often to pay for household bills. In 2004, nearly \$128 billion in household expenses was paid by credit and debit cards. In 2005, the figure is expected to rise 26 percent to more than \$161 billion.³
- The majority of online sales are handled with a credit card. In 2004, online sales rose 26 percent, from \$54.9 billion in 2003 to \$69.17 billion.⁴

Clearly, consumers like the convenience of credit, as well as its other advantages:

- Ability to provide additional credit cards to family members, including teens
- Extended warranties, buyer protection, and other quality guarantees provided by credit card issuers
- Access to assistance by phone call or the Internet to resolve billing issues, ask questions about an account, request additional credit, or apply for another credit card
- Frequent flyer or other "rewards" programs associated with credit card use
- Flexible payment opportunities

Most consumers are very responsible in managing credit:

- Approximately 60 percent of the \$108 billion that consumers charge to credit cards each month is paid off that same month.⁵
- More than 95 percent of all credit card accounts are paid on time.⁶
- 42 percent of all cardholders pay off their credit card balances in full each month and about one-third pay more than the minimum amount due.⁷

In our economy, personal responsibility and decision-making skills are

1 Source: Information Policy Institute; The Fair Credit Reporting Act: Access, Efficiency & Opportunity, June 2003

2 Source: CardTrak, May 2004

3 Source: Cardweb.com, September 2005

4 Source: U.S. Census Bureau

5 Source: Cardweb.com, September 2005

6 Source: www.aba.com; "Consumer Credit Card Delinquencies Fall in First Quarter," June 2004.

7 Source: Cardweb.com, August 2005

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essential. Every consumer needs to know how to qualify for credit, shop for credit, compare credit choices, and build a strong credit record. These skills enable someone to qualify for the best credit values – the lowest cost for credit, appropriate credit lines for their needs, and the most convenient payment terms.

The fact that a person learns about credit and credit management today can pay dividends for years. As an educator, you have the exciting opportunity to share this important knowledge about credit.

ADAPTING THE PRESENTATION TO YOUR AUDIENCE

Not all credit information is equal. Unfortunately, some of the most visible credit information can give new or inexperienced credit customers inaccurate impressions about credit. Federal laws are very detailed about the information a consumer must be told about credit. However, as long as they comply with the law, every company can establish its own credit agreements.

Help your audience members develop the skills they need to be able to understand and compare credit offers and use credit carefully to build a good credit record.

Encourage them to ask questions. The information they need to know about credit is everywhere – in ads, on the Internet, in magazine and newspaper articles, in pamphlets, and in other credit fact sheets available at their bank or credit union.

Show them how to shop for credit as carefully as they shop for groceries. Reliable creditors want good customers who understand the credit agreement they sign and who practice good judgment in using credit. Your confidence and encouragement is essential. It will help your students or participants feel comfortable as they gain knowledge. Avoid asking questions that require a show of hands or other public display of knowledge or opinion. Instead, encourage your audience members to volunteer examples or information.

Many of the activities in this section of the guide can be adapted for classroom use. In addition, there are many useful educational ideas and materials online. Refer to *Appendix 6: Resources* for examples.

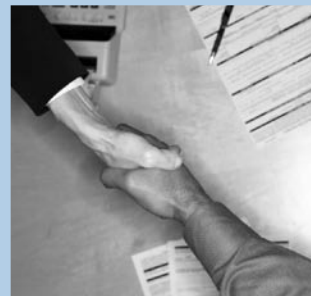
Here are some tips that will help you adapt your presentation to the needs and concerns of different audiences:

Teens

- Until they turn 18, teens need their parents' permission to get a credit card, and the parent is ultimately responsible for the payment of credit card bills.
- Today more and more parents are giving their children credit cards because they are a secure and convenient way to give teens spending money and a source of emergency funds, when needed.

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- Most credit cards used by teens have a low limit; \$500 is typical.
- By age 18, 83 percent of undergraduate students attending four-year institutions have at least one credit card in their own name.⁸
- Teens who use credit cards responsibly start to establish an excellent credit record, which can help qualify them for student loans, a car loan, or an apartment lease.
- By contrast, students who are inexperienced using credit or who don't understand the importance of using it wisely may struggle with serious credit problems, even bankruptcy. These problems can have a lasting effect for years, even reducing opportunities for jobs or housing.
- Many teens have goals that require large amounts of money; credit can be an essential resource.
- Teens enjoy doing research, such as collecting brochures or ads about credit products and comparing their interest rates and other terms.

Online educator resources:

<http://www.jumpstart.org/states.cfm>

<http://www.italladdsup.org/>

<http://www.nefe.org>

Low-income families

- May not qualify for credit because of income level or employment records; or they may receive only very expensive credit offers.
- May not have had much experience using credit.
- May have few resources available for emergencies.
- May not be familiar with the various types of credit agreements.
- Need to know how credit issuers evaluate creditworthiness.
- Need to know how to identify reliable credit resources and good credit value.

Young single adults and families

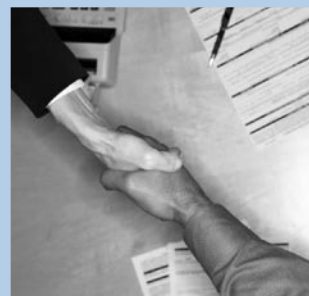
- Need to understand that it is important to budget credit use in addition to money.
- Need to know how much money they would need to manage emergencies and consider how, if at all, credit can help.
- Need to understand how to open and pay for credit accounts.
- Are unskilled at making major financial decisions; they need to learn how and where to get reliable credit information and advice.
- Need to understand how individual and joint credit accounts affect credit reports for each partner.

Consider a Q&A Opportunity

Many people are uncomfortable talking about financial issues, such as credit, in a group setting. Make a Financial Facts Q&A mailbox to allow participants to drop in cards with questions. Take a few minutes at the end of the session to answer a couple of the questions, and include content about other questions in later presentations.

⁸ Source: www.nelliemae.com/library/; "Educating Undergraduates on Using Credit Cards," 2005.

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SECTION GOAL

Illustrate the connection between credit, an individual's financial stability, and an individual's financial responsibilities.

SECTION ACTIVITIES AT A GLANCE

Use the chart to review possible activities to use. Because the activities are self-contained, they can be used independently or combined with other activities, depending on the needs of the participants.

✓	ACTIVITY	OBJECTIVES Participants will:
	1. The ABCs of Credit	<ul style="list-style-type: none"> • 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.
	2. Credit Scores	<ul style="list-style-type: none"> • Define credit scores and how they impact a consumer's ability to get credit, obtain a loan, etc. • Recognize the factors that make up a credit score. • Understand how credit scores fluctuate based on circumstances. • Understand strategies to improve your credit score.
	3. Establishing Credit	<ul style="list-style-type: none"> • Recognize the types of available credit. • Recognize sources of credit. • Understand the process of applying for credit. • Be aware of credit safeguards. • Know questions to ask prior to using credit.

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✓	ACTIVITY	OBJECTIVES Participants will:
	4. Maintaining Good Credit	<ul style="list-style-type: none"> • Understand the significance of credit reports. • Understand the process of establishing good credit. • Understand an individual's legal protection in the use of credit records. • Recognize credit oversight institutions. • Identify ways to maintain oversight of credit and to correct errors.
	5. Credit Cards	<ul style="list-style-type: none"> • Recognize the difference between private label and general use credit cards. • Identify factors to consider when shopping for a credit card. • Recognize some costs of credit. • Describe precautions to take when using and storing a credit card. • Recognize steps to take after losing a credit card. • Understand the impact of identity theft.
	6. Managing Credit Challenges	<ul style="list-style-type: none"> • Recognize warning signs of credit abuse. • Identify available assistance and resources for coping with credit issues.
	7. Identity Theft	<ul style="list-style-type: none"> • Define identity theft. • Recognize the primary ways that identity theft occurs. • Understand the immediate steps to take if your identity has been stolen. • Understand how to manage personal information to keep it safe.

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✓	ACTIVITY	OBJECTIVES Participants will:
	8. Prime and Subprime Lending	<ul style="list-style-type: none"> • Define subprime and prime lending, while differentiating from predatory lending. • Understand why people with poor credit pay much more for loans. • Recognize alternative institutions (payday lenders, rent-to-own stores, etc.) that provide higher-cost loans. • Understand strategies to improve credit in order to qualify for prime loans.
	9. Predatory Lending	<ul style="list-style-type: none"> • Describe characteristics of predatory lending. • Recognize common warning signs of predatory lending. • Recognize the key targets of predatory lending. • Identify common abuses and scams targeted toward seniors. • Identify nonprofit organizations that can help consumers plagued by predatory lending.
	10. Bankruptcy	<ul style="list-style-type: none"> • Define Chapter 7, 11, and 13. • Understand the major provisions of the new bankruptcy legislation. • Understand the credit counseling component of the new law. • Recognize strategies to avoid bankruptcy.

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