

# Student Activities



## Lesson Four

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### Credit



## should they use credit?

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### directions

For each of the following situations, circle **YES**, **NO**, or **DEPENDS** to indicate your opinion on whether these people should use credit. Also, give reasons for your response.

**1:** Marge, age 18, plans to buy a car on credit so that she is able to drive to school.

**YES**

**NO**

**DEPENDS**

**2:** Fran and Bud recently took out a loan for a new roof.

**YES**

**NO**

**DEPENDS**

**3:** Edgar, age 20, recently used his credit card to pay for textbooks for his new semester of classes.

**YES**

**NO**

**DEPENDS**

**4:** Marcia, age 28, charges all her groceries on her credit card.

**YES**

**NO**

**DEPENDS**

**5:** Sandy and Carla, age 24 and 27, are planning on buying a boat on credit for use during summers. Carla will be the main signer for the loan, with Sandy being the co-signer.

**YES**

**NO**

**DEPENDS**



## test your credit knowledge

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The following questions are designed to help you remember the credit information just covered in class.

### directions

In the spaces provided, answer each of the following questions about credit:

**List five things you can do to build a credit history.**

- 1.
- 2.
- 3.
- 4.
- 5.

When a prospective creditor evaluates a credit application, they look for the five Cs: Character, Capital, Capacity, Collateral and Conditions. **For each of the following statements, write the letter that corresponds to each statement's specific characteristic.**

**a) Character      b) Capital      c) Capacity      d) Collateral      e) Conditions**

6. \_\_\_\_\_ Do you have a savings account?
7. \_\_\_\_\_ Have you used credit before?
8. \_\_\_\_\_ Do you own a property or other asset?
9. \_\_\_\_\_ Do you have a steady job?
10. \_\_\_\_\_ Do you pay your bills on time?
11. \_\_\_\_\_ What is the state of the current economy?

**List four things you can do to build a credit history.**

- 12.
- 13.
- 14.
- 15.

# test your credit knowledge (continued)

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In the space provided, write the letter of the type of credit each statement represents.

a) Single payment credit

b) Installment credit

c) Revolving credit

16. \_\_\_\_\_ Monthly payment on a car loan
17. \_\_\_\_\_ Monthly telephone bill
18. \_\_\_\_\_ Monthly heating bill
19. \_\_\_\_\_ Using a credit card to buy a new jacket from a department store and then paying the charge off over several months
20. \_\_\_\_\_ Using a major credit card to buy a pair of shoes and then paying the total amount of the credit card balance within a month

For each of the following statements, write a **T** in the space provided if the statement is true, and **F** in the space provided if the statement is false.

21. \_\_\_\_\_ It is legal for a creditor to deny an applicant credit based on marital status or age.
22. \_\_\_\_\_ If you are denied credit, the creditor is not legally obligated to explain why.
23. \_\_\_\_\_ When creditors evaluate your income, they can't legally refuse to consider income from public assistance in the same manner as other income.
24. \_\_\_\_\_ If you are refused credit because of a credit report, upon request from you, the lender must give you the name and address of the credit bureau that issued the report.
25. \_\_\_\_\_ Your credit report is available to anyone, regardless of the reason.
26. \_\_\_\_\_ A debt collector has the right to contact you at any time of day or night.
27. \_\_\_\_\_ To be within a safe debt load, your total credit should not exceed 20% of your net pay after subtracting rent.
  
28. What should you do if you find there is inaccurate information on your credit report?
  
29. Generally, how long can a consumer reporting agency report unfavorable information?
  
30. How long can bankruptcy information be reported by a consumer reporting agency?



## how much can they safely carry?

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Most people can afford a certain amount of credit and stay within a safe budget. This amount is called a “safe debt load.” The following exercises will give you practice determining safe debt loads based on various incomes and fixed expenses.

### directions

Read each of the following scenarios and determine the largest amount of debt each person can safely carry. **Write your answers in the blanks provided. Use the space below each question to show how you arrived at each answer.**

1. David has a monthly net income of \$1,360. His fixed monthly expenses consist of a rent payment of \$450. He is paying off a student loan of \$116 per month.

David would like to buy a new television set using a credit card. What is the largest monthly payment David can afford for the television set so that his credit card payments and student loan keep his monthly payments within a safe range 10% of his income?

2. Marsha and Michael have a combined monthly net income of \$3,500. Their fixed monthly expenses consist of \$675 for rent. They also have an outstanding student loan balance of \$6,000 and a balance of \$1,000 for the stereo they bought last month.

How much debt can they safely carry?

3. Juanita has a monthly net income of \$2,500. Her fixed monthly expenses consist of \$500 for rent. She also pays a car insurance premium of \$68 and a car payment of \$167. Are these payments within a safe range?



## lesson four quiz: credit

### true-false

1. \_\_\_\_ A disadvantage of using credit is impulse buying.
2. \_\_\_\_ Capital refers to a person's assets.
3. \_\_\_\_ A steady employment record helps a person's credit history.
4. \_\_\_\_ Installment credit usually allows a person to make additional purchases on an account.
5. \_\_\_\_ Using the 20-10 rule, a person making \$40,000 a year after taxes should have no more than \$8,000 of outstanding debt.

### multiple choice

6. \_\_\_\_ A common advantage of using credit is:
  - A. less impulse buying
  - B. lower cost for items purchased
  - C. ability to obtain needed items now
  - D. lower chance of overspending
7. \_\_\_\_ A person's regular income is referred to as:
  - A. character
  - B. capital
  - C. collateral
  - D. capacity
8. \_\_\_\_ To build a credit history, a person could:
  - A. establish a steady employment record
  - B. file his or her federal income taxes on time
  - C. use an ATM several times a month
  - D. request to view her or his credit file
9. \_\_\_\_ Utility companies and medical service organizations commonly offer \_\_\_\_ credit.
  - A. revolving
  - B. single-payment
  - C. installment
  - D. retail
10. \_\_\_\_ Using the 20-10 rule, a person earning \$1,500 a month should not have monthly credit payments that exceed:
  - A. \$300
  - B. \$150
  - C. \$20
  - D. \$30

### case application

Ana Gonzalez is considering a loan to finance her college education. She currently owes money on several charge accounts and credit cards. What actions would you recommend?