



Unlocking
Success

Personal Finance

Classroom Companion

for High School Teachers

Section 4

BORROWING RESPONSIBLY

Managing Credit



Pick and choose pages of this workbook that work in your classroom.

Activities, resources, tip sheets, and self-reflection pages are built to complement your curriculum and engage your students in different ways. For the answer key, visit vacu.org/unlockingkey.

Interview with a Professional

Meet with someone who works in lending or collections, and learn more about this area of work.



Name: _____

Department: _____ Job Title: _____

What are your main job responsibilities?

What are your qualifications and background?

What do you enjoy most about your job?

Why did you choose to work in the credit industry?

What are your hobbies?

What advice do you have for us as young adults?

Job Specific Question: What is the hardest thing about working in your position?

My Question: _____

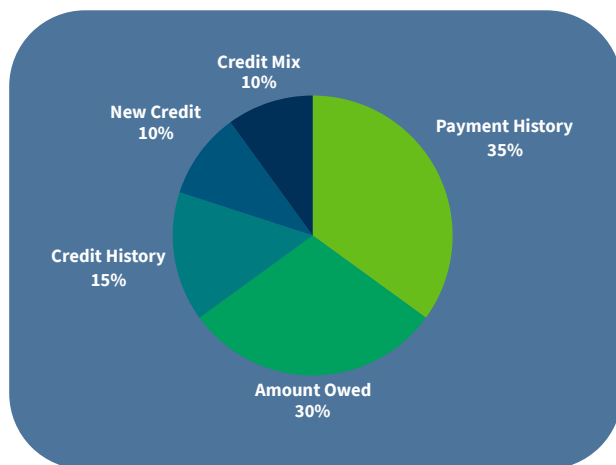
Understanding Credit

What Is Credit?

Credit is used anytime you borrow money. Essentially, credit is an IOU promising to pay the lender back.

What Is a Credit Score?

Your credit score is based on your current and past debts. It symbolizes your ability to repay a lender back.



Parts of a Credit Score

There are five components to your FICO credit score (see graph to the left) and three credit reporting agencies keeping an eye on your spending habits.

They are:

- Equifax
- Experian
- TransUnion

Request a free credit report each year to check for any errors or inaccuracies at

annualcreditreport.com.

Why Does Credit Matter?

1. Your credit determines whether or not you will be approved for loans.
2. Your credit score determines your interest rate on most consumer loans.
3. Many organizations pull your credit:
 - Employers
 - Insurance companies
 - Rental companies
 - Utilities

Having a high credit score can open up many doors, while having a low credit score can close them.



How Is Your Credit Impacted?

Which of these statements will help your credit score, and which will hurt your credit score? Circle your answer, and tell which part of the equation they affect (Hint: Look at the pie graph on the previous page).

- | | | |
|--|--------------|----------------|
| 1. You miss a car loan payment. | Help or Hurt | Part impacted: |
| 2. Your credit card limit is \$1,000 but you only spent \$100. | Help or Hurt | Part impacted: |
| 3. You don't get a loan or credit card until you're 30. | Help or Hurt | Part impacted: |
| 4. You have a car loan, a credit card, and a student loan. | Help or Hurt | Part impacted: |
| 5. You apply for a credit card at five different stores in a week. | Help or Hurt | Part impacted: |

Discussion: Would you let this person borrow from you? Why or Why not?

Scenario 1: Becky is a recent college graduate from Virginia Commonwealth University with \$55,000 in student loan debt and \$20,000 of automobile debt. She always pays her bills on time and does not carry a balance on her two credit cards.

Scenario 2: Theodore is a local weatherman and also serves as a volunteer firefighter. He has four credit cards that hold less than a 20% balance. He also owes \$140,000 on his home mortgage. Earlier in his life, he made the mistake of a few late payments but has no other infractions on his credit report. His car is completely paid off.

Scenario 3: Cameron is a 45-year-old nurse who is currently rents an apartment and is working to pay off the \$15,000 she owes on her car. She has seven late payments filed by credit card companies on her credit report. Consequently, Cameron uses one credit card to pay off the past due balance of another credit card. Cameron works very hard but often loses track of finances.

How to Check Your Credit Report: Guided Notes

Fill in the blanks as you watch the video found at vacu.org/creditreport or by scanning the QR code.



WATCH
RESOURCE

What is a credit report?

A credit report is a record of your credit _____, including your lines of credit and payment history.

Who pulls my credit report?

Your credit report may be pulled by a _____, by _____ if you apply for a car loan or credit card – even by _____.

What will I need to check my credit report?

You'll need to have your _____, _____, _____, and _____ on hand.

Where do I go to get my credit report?

Go to _____

What additional information and vocabulary do I need to know?

_____, _____, and _____ are the three credit report agencies.

The _____ makes up 15% of your credit score.

The _____ is how much money someone owes.

A _____ is the amount of money that someone is trusted to borrow.

An _____ means that they pay a fixed amount every month.

_____ are open-ended loans where the borrower can borrow money up to the maximum limit and payments can be made while continuing to borrow, such as a credit card.

Your _____ is 30% of your credit score.

_____ is the largest part of your credit score. We're talking 35%. And those pesky late payments stay on your credit report for _____!

A _____ is when you are outright requesting money for a loan. An example would be a car loan, house loan, or a credit card.

A _____ is done when a business is getting a read on your character; this could be done by a potential employer or landlord.

_____ stays on your credit report for up to 10 years.

Now, it's time to check yours!

Calculating Simple Interest on a Car Loan

Scenario: Bobby borrows \$35,000 from Virginia Credit Union to buy a car. He is approved at a 4.5% interest rate for five years. Calculate the simple interest he will owe after five years.

Formula: $I = P \times R \times T$

I = Simple Interest: Cost of borrowing money

P = Principal: Amount originally borrowed

R = Rate: Percentage converted to a decimal (% divided by 100)

T = Time: Number of years

Show your work, and box your final answer:

Extra Credit: Calculate the monthly car payment Bobby will have based on the information above.

Independent Living Checklist

Ask yourself the following questions, and mark your response.

1. Do you know how to open a bank account?	Yes	No
2. Do you know how to balance a checkbook?	Yes	No
3. Do you know how to get your credit report?	Yes	No
4. Do you have income?	Yes	No
5. Can you explain why the interest you pay on a credit card is so important?	Yes	No
6. Do you know what happens if you are late or fail to pay the minimum balance on a credit card?	Yes	No
7. Do you know how to create a budget?	Yes	No
8. Do you know what to look for before you sign a lease?	Yes	No
9. Do you know how much apartments or houses cost in the location that you want to live in?	Yes	No
10. Do you have financial goals?	Yes	No

To score, give every “yes” answer 10 points.

Point Guide

80+ You are off to a great start!

30-80 You are progressing but still need some guidance.

0-29 You need to do some homework.

Wants and Needs for Home Shopping, Page 1 of 2

Type of Home:

- ☐ One Story ☐ Two Story
☐ New ☐ Existing

Style:

Features

Distance to:	Very Important	Important	It'd Be Nice	Don't Care
Work				
School				
Shopping				
Entertainment				
Parks				
Transportation				
Overall Location				

Exterior

	Very Important	Important	It'd Be Nice	Don't Care
Landscaping				
Garden				
Side Access				
Paved Driveway				
Sidewalk				
Paint				
Window				
Doors				
Porches				
Patio				
Roof				
Gutters				
Back Yard				
Front Yard				
Deck				
Garage				

Wants and Needs for Home Shopping, Page 2 of 2

Interior

	Very Important	Important	It'd Be Nice	Don't Care
Bedroom #				
Master Bedroom				
Bathroom #				
Square Feet				
Living Room				
Dining Room				
Kitchen				
Appliances				
Fixtures				
Laundry Room				
Cathedral Ceiling				
Flooring				
Carpeting				
Attic				
Fireplace				

Systems

	Very Important	Important	It'd Be Nice	Don't Care
Security				
Heating				
Air Conditioning				
Ventilation				
Plumbing				
Electrical				
Installation				

Extras

	Very Important	Important	It'd Be Nice	Don't Care
Swimming Pool				
Workshop				
Den/Office				
Hot Tub/Spa				

Talking Guide for the Uniform Residential Loan Application

Borrower and co-borrower terms should be discussed. Emphasize the importance of knowing the person well if you were to cosign for them.

Terms for the Type of Mortgage and Terms of Loan:

Fixed Rate Mortgage

A fixed-rate mortgage is a type of home loan where the interest rate stays the same throughout the entire term of the loan. This means that monthly mortgage payments will be consistent, making it easier to budget for the future. It's a popular choice for folks who plan to stay in their home for a long time.

Adjustable Rate Mortgage (ARM)

An ARM loan has a rate and payment that may adjust up and down based on interest rate changes. ARMs may be attractive to borrowers because initially they could offer lower interest rates/payments than fixed rate mortgages.

When you see an ARM described as a ratio (i.e., 3/1 ARM or 6/2 ARM), the first number is the number of years that the interest rate is locked in until the rate can change. The second number is the number of years between possible rate adjustments. All ARMs have “caps” that will determine how much an interest rate can increase or decrease at the time of an adjustment.

Conventional Mortgage

A conventional mortgage is a type of home loan not insured by the government, typically requiring a larger down payment and higher credit score, but offering more flexibility in terms and conditions.

Federal Housing Administration (FHA)

The Federal Housing Administration (FHA) is a U.S. government agency that provides mortgage insurance on loans made by FHA-approved lenders, making homeownership more accessible for individuals with lower credit scores or smaller down payments.

Veteran's Administration (VA)

A type of mortgage that is funded by the VA and can be utilized by qualified veterans.

Borrower, Employment, Income, and Information Sections:

An applicant will need to have:

1. General information: address, phone number, past addresses
2. Social Security Number
3. Employment information
4. Income information
5. Housing expense information
6. Asset information: including account numbers
7. Liability information: including account numbers, balances, monthly payment/months left to pay
8. A list of any real estate already owned

Term for the Details of Transaction Section:

Private mortgage insurance (PMI) is extra insurance that lenders require from most homebuyers who obtain loans that are more than 80% of the home's value. In other words, buyers with less than a 20% down payment are normally required to pay PMI. The cost of PMI is added to the monthly mortgage payment.