

# CREDIT MODULE

## Outcomes

- Understanding of the uses of credit, and of its function in our financial lives.
- Recognition of the danger signals of credit overuse.
- Knowledge of fair credit collection procedures.
- Ability to identify credit traps.
- Ability to evaluate different credit card offers.
- Understanding of credit repair strategies.

## Overview

Misconceptions about credit have caused problems for people at all income levels. But people with high incomes, with good employability and previously strong credit histories, can win back a solid financial base fairly fast. People lacking these assets have the least capacity to recover. Probably the biggest problem is that people view credit as an extension of income when, in reality, it is nothing more than debt. By getting heavily involved in the use of credit, families are using up tomorrow's resources today. However, credit is not something to be completely avoided. It is necessary to function effectively in today's society. This module aims to help participants understand credit, reduce and manage debt, and build a good credit rating.

**Consumer debt is a growing problem in our society.** The average American household has 13 payment cards, including credit cards, debit cards and store cards, adding up to a total 1.3 billion credit cards in the United States. **On these cards, Americans carry, on average, \$5,800 in credit card debt from month to month. If they were to make only the minimum payment on that debt every month, as almost half of Americans do, it would take 30 years to pay off — and include an additional \$15,000 in interest.**<sup>1</sup>

Far too many people live beyond their means, using credit cards to make \$1.1 trillion worth of purchases in 1999.<sup>2</sup> This spending is part of the reason the average household owes 104 percent of its annual after-tax income, if you include mortgages. Debt payments absorb almost 14 percent of American household income.<sup>3</sup> For some, digging out of this mountain of debt proves impossible. According to the American Bankruptcy Institute, in 1999 1,319,465 people filed for bankruptcy. Of these, up to 25 percent appeared current on their bills because they took out new credit cards or cash advances to pay their bills.<sup>4</sup>

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<sup>1</sup> See "Debt consolidation loans can deepen financial problems," by Pat Curry. Bankrate.com. ([bankrate.com/yho/news/pf/20001120a.asp](http://bankrate.com/yho/news/pf/20001120a.asp)), and also ([www.cardweb.com](http://www.cardweb.com)).

<sup>2</sup> "Taking Charge of Debt: Helpful Tips for Those in Over Their Heads," by Arnold Diaz and Caroline Noel. Abcnews.com ([abcnews.go.com/onair/2020/diaz000628.html](http://abcnews.go.com/onair/2020/diaz000628.html))

<sup>3</sup> "Americans treading the waters of debt," by Lucy Lazarony. Bankrate.com. ([bankrate.com/yho/news/pf/20020501a.asp](http://bankrate.com/yho/news/pf/20020501a.asp))

<sup>4</sup> "Debt consolidation loans can deepen financial problems," by Pat Curry. Bankrate.com. ([bankrate.com/yho/news/pf/20001120a.asp](http://bankrate.com/yho/news/pf/20001120a.asp))

It is not just unwise spending habits, however, that fuel the rising debt. Credit card companies now aggressively recruit customers with cold calls and unsolicited offers, including people who are not credit-worthy. The average household receives 8 credit card offers a month.<sup>5</sup> Thirty years ago, it wasn't uncommon for adults to possess no credit card since credit checks were much more stringent. In the late 1970s, however, so-called "usury" laws were changed so that credit companies could target low-income people and charge interest rates of 20 percent or even more.

Now among poor families, 36 percent have credit cards and 69 percent carry a balance. Fifteen percent of poor families maintain a credit card debt that equals their monthly income and eleven percent have a debt that exceeds twice their income.<sup>6</sup>

These problems are particularly acute at the bottom end of the economic ladder because working people's incomes have not gained purchasing power in the last 20 years. In fact, although people worked more hours in the 1990s, their incomes still lost buying power. Credit cards allow people to try to maintain a middle-class lifestyle that is slipping away from them.

Credit also can help people in short-term emergencies since there are few government safeguards for people who experience divorce, job loss or medical bills. When these problems last for a long time, however, people set themselves up for financial disaster if they continue to accumulate debt.

**Debt has a shame factor attached to it that causes people to suffer in silence.** Anger, perhaps, is a more appropriate emotion toward a system that encourages limitless accumulation and offers only high-interest credit to people with financial emergencies. Bankruptcy laws are helpful because they allow people to get a fresh start. Every year in Congress, however, bills sponsored by the credit industry are proposed that would make it more difficult for low-income people to file for bankruptcy.

## Considerations

- Because so many of us struggle with credit, this is always a popular, universally applicable module. However, because of the overwhelming nature of debt, there is often a great deal of procrastination associated with ordering credit reports or visiting Consumer Credit Counseling Services. Anything you can do as facilitator to "make it happen" (inviting a credit counselor to the workshop for individual consults, mailing credit report applications yourself) is likely to be greatly appreciated.
- Participants are likely to ask for specific recommendations on debt consolidation programs, secured credit cards, etc. Avoid endorsing specific products; instead, urge participants to contact consumer bureaus or make their own choices based on their reading of FINE PRINT.
- For an overview of the credit-building process, and for details on how to identify warning signs of credit overuse, see the facilitator's guides, "Building a Positive Credit History" and "Danger Signs of Credit Problems."

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<sup>5</sup> "Debt nation," by Jenny Nelson. April 18, 2001. ([pbs.org/newshour/extra/features/jan-june01/credit\\_debt.html](http://pbs.org/newshour/extra/features/jan-june01/credit_debt.html))

<sup>6</sup> "Living in debt: a national way of life," by Camille Colatosti. The Witness. ([thewitness.org/archive/9909/currentarticle.html](http://thewitness.org/archive/9909/currentarticle.html))

## List of Activities in the Credit Module

| ACTIVITY                  | DESCRIPTION   | TIME       |
|---------------------------|---|------------|
| Talking About Credit      | An introductory discussion of credit terminology, pros, and cons.   | 5-10 min.  |
| Using Credit Wisely       | Participants use a worksheet to identify times they would and would not use credit.                                 | 10-15 min. |
| Choosing a Credit Card    | Discussion and calculations of what to look for and what to avoid in a credit card—comparison of credit card rates. | 20-30 min. |
| The Minimum Balance       | Discussion of the impact of revolving debt and how to get out of it. Overview of fair debt collection.              | 10-15 min. |
| Credit Reports and Repair | Discussion of credit repair strategies; participants complete letters requesting their credit reports.              | 20-40 min. |

## List of Materials in the Credit Module

- Building a Positive Credit History (Facilitator’s Guide)
- Danger Signals of Credit Problems (Facilitator’s Guide)
- Would You Use Credit? (Activity Sheet)
- Would You Use Credit? (Facilitator’s Answer Sheet)
- A Road Map to Avoiding Credit Card Hazards (Handout)
- What to Look For In a Secured Credit Card (Handout)
- Credit Card Rates (Activity Sheet)
- The Cost of Making the Minimum Payment (Handout)
- Fair Debt Collection (Handout)
- Credit Reports (Handout)
- Credit Repair Basics (Handout)
- Sample Dispute Letter (Handout)
- Addresses of Credit Reporting Agencies (Handout)
- How to Read Your Credit Report (Handout)
- Letter Requesting Credit Report (Activity Sheet)

## **FACILITATOR'S GUIDE: CREDIT MODULE**

### **Building a Positive Credit History**

It is wise to establish a history of reliable credit payment so that credit can be obtained from a reputable source when it is needed. Families who cannot qualify for credit or have a poor credit record are sometimes forced to go to loan sharks or pay very high interest charges. Success in obtaining credit often depends on past successes. Applicants must show a good payment record before credit is granted. The reason for this is that creditors are taking a risk by making the loan, and they want to make sure that risk is not very big. Paying all bills on time is the best way to establish a good credit record.

People who have not had credit before should consider applying at a local bank or retail store. They should not apply for too many accounts at one time. Credit bureaus keep a record of each creditor who inquires about a person's credit record. Some creditors will deny an application if they think the applicant is opening too many new accounts in a short period of time. People who have had credit before should make sure the local credit bureau has complete and accurate information about them. The bureaus can be located by looking in the Yellow Pages of the phone book under headings such as "Credit" or "Credit-Reporting Agencies." Credit bureaus keep files with information on how many and what kinds of credit accounts people have, how they pay their bills, and if they've ever filed for bankruptcy or been sued.

For married couples, loans and other accounts may be in one name only, or they may be joint accounts. A joint account should be reported on both account holders' credit histories. If one spouse does not have a credit history, he or she can establish credit by using the spouse's credit record. Simply request that the credit bureau report information in both names.

Creditors consider you to be more stable if you have lived in one location for a period of time. Therefore, people who plan to move may want to establish credit at the current location before they move. If you move to a new town, it is worth checking to be sure the credit record from the former location has been transferred to the credit bureau in the new location.

#### **Applying for Credit**

Creditors evaluate applicants for credit on their ability to repay debts. Creditors want to be sure that the applicant can repay the debt. Their evaluation of creditworthiness is based on income, stability, and credit history. Income is salary and other sources of income such as child support, social security, and welfare benefits. There may be other questions about assets such as savings, real estate, automobile ownership, or other investments. Stability is measured by how long a person has lived at the present address and worked for the present employer. Living expenses and other credit obligations are also considered to determine the applicant's ability to repay. Credit applications usually require a signed statement that allows the creditor to investigate the credit history and employment of the applicant. To better prepare for teaching this material, order your own credit history. Study it to become familiar with the kinds of information included in a credit report.

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## FACILITATOR'S GUIDE TO BUILDING A POSITIVE CREDIT HISTORY (CONT.)

### Creditor Guidelines

Under the law, there are certain things that a creditor may and may not ask. A creditor *may not*:

- Ask about childbearing intentions.
- Ask about race, creed, color, national origin, or sex, except when it is required to do so by a government agency.
- Discourage applicants from applying for credit because of sex or marital status.
- Discourage participants from applying for their own individual accounts.

A creditor *may* request information about a spouse if

- A couple is jointly applying for credit or the spouse will be an authorized buyer on the account;
- The applicant is relying on community property or a spouse's income for creditworthiness.

All creditors are required by the Truth-in-Lending Act to state the cost of their credit to consumers. It is wise to shop around for the best terms by comparing the annual percentage rates (APRs). Applicants should find out exactly how much the credit is going to cost and be certain that they understand the contract before signing it. A signed contract is a legal document.

### Denied Application

A credit application can be denied for several reasons. Every creditor has different standards for evaluating the creditworthiness of an applicant. One creditor might accept your application for credit, while another might not. If credit is denied, the creditor must give a written notice explaining the specific reasons why the application was denied or let the applicant know that the information is available upon request.

If credit is denied based on a credit report, the Fair Credit Reporting Act gives the applicant the right to get a summary of the credit history from the credit reporting agency. If credit is denied due to incorrect information provided by the credit bureau, the applicant can request the incorrect information be removed from the file. All creditors who received the incorrect information in the past 6 months must be notified by the credit bureau that the file has been corrected.

### The Credit Bureau

Credit bureaus collect information on all persons who have used any form of credit. This credit could be service credit, such as doctor's bills or payment for housing rental. Reports can include information on mortgages, credit cards, or revolving credit accounts. Also, legal actions such as bankruptcy, tax liens, or foreclosures are recorded. This information can be provided to any business or creditor who subscribes to have access to this information.

Records of negative information remain on the credit report for 7 years. A bankruptcy must remain on the report for 10 years. Periodically, everyone should check his or her credit report. This can be done free or for a small charge, depending on the particular credit bureau.

## **FACILITATOR'S GUIDE: CREDIT MODULE**

### **Danger Signals of Credit Problems**

Almost everyone uses some form of credit. Credit allows us to obtain goods and services by paying for them with income we expect to receive. We can use the goods and services right away without waiting until we save enough money to buy them. However, credit can cause financial problems and hardship if not managed wisely.

Some families have difficulty using credit. Credit is often used as a convenient means to buy an item when it's wanted or needed. If this becomes a habit, a family can become financially overextended.

Most families can learn to use credit wisely if they know the credit danger signals and are willing to do what is necessary to reduce debt. Following are some danger signals that indicate a family may be having financial problems:

1. You pay only the minimum amount due each month on your credit cards, and outstanding balances shrink very slowly.
2. You make so many credit purchases that your total debt rarely shrinks at all.
3. You take out new loans to pay off other loans.
4. You skip payments, thus adding to interest charges.
5. You rely heavily on the automatic loan-overdraft protection of your checking account.
6. You buy items on credit that you once bought with cash.
7. You often receive past-due notices in the mail.
8. You must rely on extra income, such as overtime wages, to make ends meet.
9. You cash in bonds before they mature or use savings to pay current bills.
10. You face an ever-widening gap between income and expenditures.
11. Your credit for things other than a mortgage is at least 20 percent of your take-home pay, or the payments are more than available discretionary income.
12. Bills are turned over to a collection agency.
13. You post-date checks.
14. You are turned down for credit because you have a poor credit report or too many outstanding debts.

## CREDIT ACTIVITY #1

### Talking About Credit

#### *A. Objectives*

- Participants explore the advantages and disadvantages of credit.
- Participants develop a working vocabulary for talking about credit.

#### *B. Time Needed*

5 to 10 minutes

#### *Description*

1. Ask, “what is credit?” “Who gets it?” “Who gives it?”
2. Introduce the concept of credit and its importance in our society (see the information in the introduction to this module for information about how widespread debt is in American society). Emphasize that sooner or later, almost everyone needs to use credit, which we define as the use of goods and services on the basis of paying for them in the future. Work with participants to generate a list of the four different types of credit:
  - **Sales credit** or installment credit is used to buy goods. This form of credit is offered by car dealers, department stores, and some mail-order catalogs.
  - **Loans** offer cash, which is usually available through a bank or finance company. Loans are used to meet unexpected expenses, make major purchases, or pay off other debts.
  - **Credit cards**, usually offered through banks, are used to purchase goods or services and can also be used to get cash. Credit cards are also offered through other sources, such as businesses and other types of financial institutions.
  - **Service credit** is used when we visit the doctor and are billed later, or for the use of household utilities such as telephone or electric service.
3. Emphasize that credit is not free. Buying "on time" involves charges and interest on deferred payments. These costs can add up quickly. Even though people view credit as an extension of income, in reality, it nothing more than debt. Explain how interest works and how an unpaid balance can grow.
4. Generate a list of the advantages and disadvantages of credit. The lists should include:  
Advantages: helps in emergencies, allows you to take advantage of sales, convenience, eliminates the need to carry large amounts of cash, establishes credit history. Disadvantages: risk of fraud, interest, temptation to overspend, buying on credit usually costs more (often outweighing savings!) and it ties up future income.
5. Introduce the concept of a credit history. Creditors evaluate applicants for credit on their ability to repay debts. Creditors want to be sure that the applicant can repay the debt. Their evaluation of creditworthiness is based on income, stability, and credit history. Part of one’s credit history is determined by one’s credit report.

## CREDIT ACTIVITY #2

### Using Credit Wisely

#### ***A. Objectives***

- Participants identify savvy uses of credit.
- Examine personal choices about current use of credit.

#### ***B. Time Needed***

10 to 15 minutes

#### ***C. Materials***

Activity Sheet: “Would You Use Credit?”

Pencils

1. Explain that credit, like other financial tools, can have useful and less useful applications. Ask participants to discuss some situations in which credit has been useful to them.
2. Distribute the activity sheet, “Would You Use Credit?” and ask participants to fill it out individually.
3. Review and discuss the answers as a group, using the facilitator’s answer sheet as a guide.

## FACILITATOR'S ANSWER SHEET

### Would You Use Credit?

1. Using credit allows you to have the use of the furniture or appliances as you pay for them.
2. It is not usually a good idea to use credit to pay overdue bills. Bill-paying problems often can be solved by reducing spending, increasing income, or negotiating with creditors for smaller but regular payments.
3. Most consumer-credit counseling services do not recommend using credit to buy perishable items. Not only is it difficult to keep track of what you have spent, but it's difficult psychologically to pay for something after you have used it. You may want to use credit to purchase gasoline or food and then pay for those items in full on a monthly basis.
4. Most people could never buy a home or attend college unless they used credit.
5. It may be more convenient to use credit than to write several checks, and it is safer than carrying large amounts of cash. However, you may not make purchases as carefully.
6. Consumer-credit counselors do not recommend using credit to purchase items costing less than \$25. It may be difficult for you to keep track of small credit purchases. Some consumers are not as careful in making purchase decisions if they use credit to buy lower-priced items. Using credit instead of cash, however, may be more convenient, safer, and in some cases less expensive. For example, credit could allow you to take advantage of a reduced price.
7. If you plan to purchase an item in the future, you might save money by using credit to buy it now rather than waiting to pay cash. Whether or not you save money depends on how much the credit costs and how you repay it.
8. If you use credit to pay for a vacation, you'll need money available to pay future credit payments. If the monthly credit payments fit into your budget, taking a vacation now and paying later may be justified.
9. If you cannot afford to save a certain amount of money each month toward a purchase, you probably can't afford to buy it on credit. Many people, however, find it easier to make credit payments each month (forced savings) than to save the same amount of money each month.
10. Credit can be used for many reasons besides a shortage of cash. You can use credit to establish a record of responsible credit use or for the convenience and safety it offers.

## CREDIT ACTIVITY #3 Choosing a Credit Card

### ***A. Objectives***

- Participants identify credit/loan terms, and scams.
- Participants compare interest rates on different cards.

### ***B. Time Needed***

20 to 30 minutes

### ***C. Materials***

- Handouts: “A Roadmap to Avoiding Credit Card Hazards,” “What to Look for in a Secured Credit Card”
- Activity Sheet: “Credit Card Rates”
- Calculators, pencils

### ***Description***

1. Ask participants to describe their experience with credit card offers. Use the handout “A Roadmap to Avoiding Credit Card Hazards” to go over key terms such as APR, minimum payment, introductory offers, etc. Talk about the motivations of credit card companies in targeting those least able to pay. Refer to the introduction to this module for facts about how the credit card industry targets low-income communities. Review the traps outlined by the handout.
2. Explain that the only way to sift through all the offers is to **DO THE MATH** and **READ THE FINE PRINT**.
3. Distribute the activity sheet “Credit Card Rates” and walk the participants through the math.
4. Discuss alternatives to “mainstream credit cards” that may be inaccessible to those with shaky credit records. One option is a secured credit card. Distribute and discuss the handout “What to Look for in a Secured Credit Card.”

## CREDIT ACTIVITY #4 The Minimum Balance

### ***A. Objectives***

- Participants understand the limitations of paying the minimum balance.
- Participants understand the impact of credit card debt.
- Participants identify resources for debt consolidation or credit counseling.
- Participants understand their rights to fair debt collection.

### ***B. Time Needed***

10-15 minutes

### ***C. Materials***

Handouts: “The Cost of Making the Minimum Payment”, “Fair Debt Collection.”

### ***Description***

1. Introduce or review the concept of revolving debt: “interest on your interest.” Explain how debt accumulates.
2. Distribute and review the handout “Cost of Making the Minimum Payment.”
3. Discuss some strategies for getting debt under control:
  - Don’t use any more credit
  - Integrate credit card payments into the personal budget/spending plan
  - Contact the creditor—work out a plan.
  - Contact Consumer Credit Counseling Service (CCCS): (800) 388-CCCS.
  - Consider a consolidation loan: a single loan taken out to pay off all other debts. The payments on the new loan are lower than the total of all the old payments because they stretch over a longer repayment period.
4. Distribute and discuss the handout “Fair Debt Collection.”

## CREDIT ACTIVITY #5

### Credit Reports and Credit Repair

#### ***A. Objectives***

- Participants identify strategies for building and repairing credit.
- Participants request their credit reports and learn to interpret them.

#### ***B. Time Needed***

20 to 40 minutes

#### ***C. Materials***

- Handouts: “Credit Reports”, “Credit Repair Basics”, “Sample Dispute Letter”, “How to Read your Credit Report”
- Activity Sheet: “Letter Requesting Credit Report”

#### ***Description***

1. Ask, “What are the warning signs of credit problems?” (See the Facilitator’s Guide at the start of the module). List should include:
  - Paying only the minimum month after month
  - Being late on the most important payments, like rent or mortgage
  - Borrowing from one lender to pay off another.
  
2. Explain that the next set of activities will lay the groundwork for identifying and/or resolving some of our problems with credit. By requesting our credit reports, we will get information from the three credit reporting agencies that track our credit histories. We can’t begin to repair our credit unless we know what we’re dealing with! Our credit could be much better or much worse than we expect—we can’t know unless we ask! Distribute the handout “Credit Reports.”
  
3. Explain that TransUnion, Experian, and Equifax are the three credit reporting agencies that keep track of our credit histories and will provide one free credit report a year to MA residents. Distribute the activity sheet “Letter Requesting Credit Report” and ask participants to fill them out. Ideally, provide stamped addressed envelopes and mail the letters after the workshop.
  
4. Distribute and review the handouts “How to Read Your Credit Report” and “Sample Dispute Letter.”
  
5. Distribute and review the handout “Credit Repair Basics” and explain how agencies like Consumer Credit Counseling Services can help manage debt, and that participants should avoid companies that say they will repair a bad credit record for a fee.