

FINANCIAL FOOTBALL

MODULE 4 // HOW CREDITWORTHY ARE YOU?

HALL OF FAME: AGES 18+



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MODULE 4 // FINANCIAL FOOTBALL PROGRAM

Financial Football is an interactive game designed to acquaint students with the personal financial management issues they are beginning to face as young adults.

It was developed with the philosophy that games can be powerful teaching tools. With most teens and young adults being familiar with some form of computer game, Financial Football engages students in a fun, familiar activity, while educating them on topics essential to developing successful life skills.

Financial Football features questions of varying difficulty throughout the game. Like football, successful financial management requires strategy, finesse and endurance.

The following curriculum is intended as a weeklong program. Before you play the game, we recommend reviewing and completing the four, 45-minute educational modules with your students to help them get a jump on the financial concepts the game covers.

MODULE 4 // HOW CREDITWORTHY ARE YOU?

Overview: In this lesson, students will gain an understanding of what credit is, how personal creditworthiness is built and maintained, and how credit is protected.

Age Level: 18+ years old

Time Allotment: 45 minutes

Subject: Economics, Math, Finance, Consumer Sciences, Life Skills

Learning Objectives:

- Understand what creditworthiness is
- Understand the three Cs of credit
- Understand when to use credit and when not to
- Learn how to spot and reverse the negative effects of identity theft

Materials: Facilitators may print and photocopy as handouts the quiz and written exercises at the back of this document. Students may use an online dictionary or search the web for commonly used financial terms. The Practical Money Skills web site has a glossary located here:
<http://www.practicalmoneyskills.com/glossary>

Answer keys for all practice exercises are found on the last pages of this document.

MODULE 4 // INSTRUCTION GUIDE

In football, as in other sports, statistics are used to measure how well individual football players perform, as well as where the team stands in the league's rankings. Favorable numbers play a huge part in how the football player does in his or her career, as well as whether the team eventually makes it to the playoffs or Super Bowl.

Once you start using credit, whether through credit cards, student loans or other forms of borrowing, you begin building a credit history. Your credit history is a bit like a player's statistics in football. By looking at your past financial statistics, a bank or lender can evaluate and measure the likelihood that you'll be able to pay off debt if they decide to offer you a loan or credit card. In other words, your credit history, measured using past performance with money, determines what kind of credit risk you are.

As young adults begin to build credit, it's important for them to learn about creditworthiness and how it can affect one's financial future. Avoiding mistakes that damage your creditworthiness is vital, because once damaged, you may find it a long and difficult process to restore your creditworthiness.

Advantages of being creditworthy:

- You are more likely to secure favorable rates on loans and credit accounts.
- You may qualify for lower auto insurance rates.
- You will be able to open utility accounts for your apartment or house without paying large deposits.

Challenges to you if you are not creditworthy:

- You will be charged higher loan and credit card interest rates.
- You may experience difficulty renting an apartment or buying a home.
- You may pay higher fees on credit accounts.

MODULE 4 // DISCUSSION

Establishing, maintaining and protecting credit

When lenders consider your loan or credit card request, their main concern is: Can and will you pay back the amount you borrow responsibly and on time? In other words, are you creditworthy? They use many tools and consider many factors to arrive at their decision.

The Three “Cs” of credit are used to determine your creditworthiness. Should a lender approve your car loan or student loan? Should a service provider approve your cell phone contract? Should a landlord sign a lease with you? Are you a good job candidate?

These decision-makers look at three main elements during their evaluation process:

- Character – how well you handle financial obligations.
- Capital – the assets you own, including real estate, savings and investments.
- Capacity – how much debt you can manage, based upon your income.

Character

Character is an evaluation of how likely you are to repay your debts. Potential lenders ask themselves certain questions about your history, including:

- Have you used credit before?
- Do you pay your bills on time?
- Have you ever declared **bankruptcy**?
- Can you provide character references?
- How long have you lived at your present address?
- How long have you been at your present job?

Capital

Lenders often want to know if you have any assets you can use to secure the loan, in case you lose your job or default on a loan payment.

- What property do you own that can secure the loan?
- Do you have a savings account?
- Do you have investments to use as **collateral**?

Capacity

Capacity looks at how much debt you can handle based on your current financial situation. Lenders want to know whether or not you have been working regularly in a job that will provide enough income to support your credit use.

- Do you have a steady job?
- What is your salary?
- How many other loan payments do you have?
- What are your current living expenses?
- What are your current debts?
- How many **dependents** do you have?

LESSON MODULE 4 // DISCUSSION (continued)

How to increase your creditworthiness:

Pay down your debts.

Pay off your credit card balances in full every month. If you find yourself unable to do so, pay down your debt as soon as possible. Creditors look at the gap between your balance and your credit limit. The more unused credit you have, the better your creditworthiness. Used wisely, credit cards help your creditworthiness.

Spend less than you earn.

Remember that lesson on budgeting? Having money in savings increases all three Cs above.

Keep old accounts open.

Credit card issuers and lenders often look at the length of your credit history. Keeping old credit card accounts open with a zero balance helps your credit history in two ways. First, it maintains the length of your credit history. Second, when you close an account, you lower the total amount of credit available to you, which in turn raises the ratio of balances on your other loans and credit cards.

Pay your bills on time.

If you cannot pay your bills on time, call each of the companies before you pay late and explain your situation. Often, you can work out an arrangement that will allow you to pay what you are able to pay at the time. And because you're acting responsibly with your creditors, you won't hurt your creditworthiness nearly as much as if you pay late or skip a payment.

Avoid bankruptcy.

Bankruptcy is a legal state granted by a court of law that declares you unable or impaired in your ability to pay back your debts to your creditors. Bankruptcy is a last resort. Most bankruptcies can be avoided. Bankruptcies stay on your credit history for a very long time.

LESSON MODULE 4 // DISCUSSION (continued)

PROTECTING YOUR PERSONAL INFORMATION AND ACCOUNTS

What is identity theft and what if it happens to you?

Identity theft occurs when someone steals your personal information and uses it to get loans, credit cards, cell phone or utility services, or to open other accounts in your name.

Identity thieves often rack up debt in your name, which has devastating effects on your credit history, and can cause you the loss of countless hours correcting the situation.

If you've discovered that someone has stolen your identity:

- Contact the police immediately and file a report.
- Use this police report to begin disputing fraudulent charges and accounts with your bank, creditors and credit bureaus.
- Place a security freeze on your credit accounts before any new accounts can be opened in your name and further damage your credit.

Ways to prevent identity theft:

- Always keep track of your credit cards and credit card numbers. Carry a minimal number of cards with you and store the rest, and your bills, in a secure place.
- Use the Internet to your advantage. Paying bills online will prevent physical, mailed bills from sitting in your mailbox where someone could walk by and steal them.
 - If you need to mail a bill, drop it off at the post office.
- Shred all personal documents, including old bills, receipts, credit card and mortgage offers, and other documents that contain your personal information.
- When ordering products or services online, use only secure websites that have https:// in their web address and utilize Secure Socket Layer (SSL) and certificates to keep your transactions safe from hackers. It's also smart to print out your receipt or confirmation immediately after the transaction to have a record of purchase.
- Beware of phishing schemes, which involve receiving emails pretending to be from legitimate organizations that prompt you to visit phony websites. No legitimate bank or financial institution will EVER ask you to verify your account information in an email or ask you to click on a link in an email to go to a web site and enter or verify your account information. If you receive such an email or text, you are the target of a "phishing" scam. The phishing goal is to obtain your financial information and use it for fraudulent purposes. Most banks and financial institutions have ways of identifying phishing schemes that are impersonating them. Check your bank's web site for details.

MODULE 4 // QUIZ

Answer the following questions:

1. True or false: Keeping older accounts open, even if they have a zero balance, can help your credit history.
2. True or false: Having lots of debt on your credit card helps your creditworthiness.
3. What is the very first thing you should do if your identity is stolen?
4. True or false: Contacting lenders when you can't make a payment is a good step toward protecting your creditworthiness.
5. True or false: A house is considered capital.
6. True or false: If your creditworthiness is low, your credit card interest rates will also be low.
7. True or false: Bankruptcy is the best way to handle your debts.
8. True or false: All online shopping is safe.
9. True or false: All emails that look like they're from your bank and are asking you to verify your account number are from your bank. It is quite normal for a bank to ask you for your account information.
10. List the three "Cs" of credit, and define what each one means.

MODULE 4 // WRITTEN EXERCISES

Improving your credit score and debt level

You have three credit cards:

- | | | |
|------------------|----------------------|---------------|
| • Credit card #1 | \$500 credit limit | \$100 balance |
| • Credit card #2 | \$1,000 credit limit | \$950 balance |
| • Credit card #3 | \$2,500 credit limit | \$950 balance |

1. Even though the balances are all under the credit limits, which card's balance should be reduced first to help your creditworthiness?
2. What would the ideal balance on this card be?
3. How much should you try to pay off?

Protecting your credit rating and credit score

You receive a call from a telemarketer offering you a pre-approved credit card with a low interest rate. You don't have any credit cards and want to start building your credit history.

4. You should:
 - A: Say "yes" and give them your financial information.
 - B: Decline the offer and have them remove you from their calling and mailing lists.
 - C: Take their offer, but negotiate a better introductory rate.

You've gone to an electronics store to buy a new computer and applied for their store credit card. You believe you're in good credit standing, but you're denied.

5. You should:
 - A: Obtain a copy of your credit report.
 - B: Review your credit report to see your levels of credit and if they are too high.
 - C: Review your credit report for any errors or fraud.
 - D: All of the above.

MODULE 4 // ADDITIONAL WRITTEN EXERCISE

This is an additional exercise to determine how much knowledge you've retained about creditworthiness.

Scenario: A great apartment just became vacant in your best friend's building. It's cheap, has amazing city views and is centrally located. However, the landlord is extremely picky about who she will accept as a renter. She wants someone with great credit and references. You have a good chance of getting it. To strengthen your chances, write a letter to the landlord, using the creditworthiness information you've learned in this module to reinforce what a good candidate you are.

MODULE 4 // WRITTEN EXERCISE ANSWERS

Quiz Answers:

1. True 2. False 3. Contact the police 4. True 5. True 6. False 7. False 8. False 9. False
10. Character – how well you handle financial obligations. Capacity – how much debt you can manage, based upon your income. Capital – the assets you own, including real estate, savings and investments.

Written Exercise:

1. Credit card #2
2. $\$1,000 \times 30\% = \300 or less is the ideal balance.
3. $\$950 - \$300 = \$650$, which is the amount you should aim to pay on the balance as soon as your budget allows.
4. B
5. D