



EQUITABLE



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Using credit

Name _____

Date _____

Should they use credit?

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 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 as the cosigner.

YES

NO

DEPENDS

Test your credit knowledge

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 three Cs: Character, Capital and Capacity.

For each of the following statements, write the letter that corresponds to each statement's specific characteristic.

a) Character

b) Capital

c) Capacity

6. _____ Do you have a savings account?
7. _____ Have you used credit before?
8. _____ How long have you lived at your present address?
9. _____ Do you have a steady job?
10. _____ Do you pay your bills on time?
11. _____ What are your current debts and your current living expenses?

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

12. _____
13. _____
14. _____
15. _____

Test your credit knowledge (continued)

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 cell phone 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?

Group Activity

How much can they safely carry?

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: Divide into three teams. Read each of the following scenarios and determine the largest amount of debt each person can safely carry.

Each team discusses the scenario and writes their answer in the spaces provided. When complete, each team presents their scenario for discussion.

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 using a credit card. What is the largest monthly payment David can afford for the television so his credit card and student loan payments keep him within a safe debt load of 20%?

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 more debt can they take on and still be within a safe debt load?

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 Juanita's safe debt load?

Lesson 5 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 their federal income taxes on time.
 - C. use an ATM several times a month.
 - D. request to view their 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?

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