CREDIT BASICS:
SIMPLE STRATEGIES FOR SMART CREDIT

Activity 1: The Four C's

Before approving any kind of loan, most lenders will use the Four C's as a guide. The Four C's are: character, collateral, capacity, and creditworthiness. Put the class into four groups and have each group explain one of the C's. The more creative the explanation the better.

Activity 2: Simple strategies for smart credit.

1. What does a credit report show? How often should you check your credit report?

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2. What does APR stand for? What is the APR on your current credit card(s)?

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3. What are the different kinds of credit cards? What are the pros and cons of each?

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4. What is a grace period? What is the grace period on your current credit card(s)?

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5. Name some ways you can maintain a good credit score?

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ANSWER KEY:

Activity 1: The Four C's
Student's group presentations may vary.
Character: When assessing character, a lender will ask you questions. They want to make sure you are honest and trustworthy. They will also want to find out how long you have been at your job and if you have a checking or savings account.

Collateral: Something valuable a lender can take away from you if you do not repay your debt.

Capacity: The lender needs to be reassured that you can repay the debt. You may have good intentions, but if you don't have the capacity to make your payments, maybe you won't make them- at least that's what your lender thinks. Capacity depends on your income and your expenses.

Creditworthiness: The measure of how likely you are to repay what you borrow. Lenders can find out how you've handled your debt in the past by looking at your credit report.

Activity 2: The skinny on being savvy.

1. Your credit report shows the amount of debt you have, if your payments have been late or on time, or if you haven't repaid your debt at all. This information could stay on your report for years. Be sure to review your credit report annually. You are allowed one free credit report every year.

2. APR stands for annual percentage rate and is the yearly cost for the money you borrow.

3. There are 3 types of credit cards. There are low limit credit cards, secured or prepaid cards and student credit cards.
Low limit credit cards.
- **Pros: good for young teens or those with credit problems, good way to learn about credit, have a lower limit which equals lower risk**
- **Cons: usually limited to only $200 or $300.**

Secured or Prepaid cards.
- **Pros: can help you establish credit for the future, or repair credit**
- **Cons: requires a cash collateral deposit that becomes the credit line for the card**

Student credit cards:
- **Pros: designed especially for students who have not established credit, usually have a lower interest rate and no annual fees**
- **Cons: usually low limit**

4. A grace period is the time you have to make a payment without being charged interest.

5. Pay your bills on time, pay your credit card balance in full every month, do not max out your credit cards, and do not keep more than 3 credit cards, check your credit report annually for errors.