

Cosigning loans and sharing credit

Students research credit and analyze scenarios on sharing credit cards and cosigning loans.

Learning goals

Big idea

It's helpful to examine the benefits and risks before cosigning loans or sharing credit.

Essential questions

- What are the benefits and risks of cosigning loans or sharing credit?
- What rules apply to both parties when cosigning loans or sharing credit?

Objectives

- Apply prior knowledge to analyze real-world scenarios
- Identify benefits and risks of cosigning loans or sharing credit

What students will do

- Apply prior knowledge as they examine real-world scenarios about cosigning loans or sharing credit.
- Determine the benefits and risks of cosigning loans or sharing credit in the scenarios.

NOTE

Please remember to consider your students' accommodations and special needs to ensure that all students are able to participate in a meaningful way.

KEY INFORMATION

Building block:

 Executive function

 Financial knowledge and decision-making skills

Grade level: High school (9-12)

Age range: 13-19

Topic: Borrow (Getting loans, Managing credit)

School subject: CTE (Career and technical education), Social studies or history

Teaching strategy: Cooperative learning

Bloom's Taxonomy level: Evaluate

Activity duration: 75-90 minutes

National Standards for Personal Financial Education, 2021

Managing credit: 8-5, 12-2, 12-4, 12-5, 12-7, 12-8, 12-9, 12-10, 12-12

These standards are cumulative, and topics are not repeated in each grade level. This activity may include information students need to understand before exploring this topic in more detail.

Preparing for this activity

- While it's not necessary, completing the "Creating a PSA about credit cards" activity first may make this one more meaningful.
- Print copies of all student materials, or prepare for students to access them electronically.
- Print one copy of the credit scenarios (included in this guide) and cut the scenarios into strips.
- Obtain a computer or tablet with Internet access for each student or group of students. If that's not possible, you can do the research yourself and print out a few handouts with information for students to use.

What you'll need

THIS TEACHER GUIDE

- Cosigning loans and sharing credit (guide)
cfpb_building_block_activities_cosigning-loans-sharing-credit_guide.pdf

STUDENT MATERIALS

- Cosigning loans and sharing credit (worksheet)
cfpb_building_block_activities_cosigning-loans-sharing-credit_worksheet.pdf
- Optional: All about credit scores (handout)
cfpb_building_block_activities_all-about-credit-scores_handout.pdf
- Optional: Credit scores: An infographic (handout)
cfpb_building_block_activities_credit-scores-infographic_handout.pdf
- Credit scenario strips (in this guide)
- Computers or tablets with Internet access

Exploring key financial concepts

Not everyone qualifies for credit on their own. If a lender believes you can't make the minimum required payments on the account, you may need someone to cosign your account or you may need to be added as an authorized user on someone's credit card account. This is especially true for young people who do not have a credit history.

When you open a joint credit card, both account holders have equal access to the account and are equally responsible for making payments, no matter who made the transaction. For cosigned loans, the cosigner has the same responsibility for the payments as the primary borrower but may not have the privileges that come with the loan. For example, in the case of a car loan or a student loan, usually only the primary borrower receives the car or the money from the loan, but both people are obligated to repay. For a joint account or cosigned loan, the account appears on the credit reports of both people. If a payment is late or goes unpaid, both account holders are marked as delinquent. Thus, it's important to consider all the benefits and risks before applying for a joint account or cosigning a loan for someone. It's also important to always read any agreements that require you to repay money.

TIP

Because financial products, terms, and laws change, students should be encouraged to always look for the most up-to-date information.

Teaching this activity

Whole-class introduction

- Ask students if they have ever loaned something to someone when they thought they might not get it back.
 - Ask students how they felt about taking that risk.
- Tell students they'll explore the benefits and drawbacks of cosigning loans and sharing credit accounts.
- Read the "Exploring key financial concepts" section to the class.
- Be sure students understand key vocabulary:
 - **Cosigner:** An individual who signs a loan, credit account, or promissory note of another person as support for the credit of the primary signer and who becomes responsible for the debt obligation.
 - **Credit:** Borrowing money, or having the right to borrow money, to buy something. Usually it means you're using a credit card, but it might also mean that you got a loan.
 - **Credit card:** An open-ended loan that allows you to borrow money up to a certain limit and carry over an unpaid balance from month to month. There is no fixed time to repay the loan as long as you make the minimum payment due each month.

TIP

Visit CFPB's financial education glossary at consumerfinance.gov/financial-education-glossary/.

- **Credit score:** A number created from a scoring model that uses information from your credit history.
- **Credit utilization ratio:** The amount of credit a person has compared with the amount they've used.
- **Loan:** Money that needs to be repaid by the borrower or cosigner, usually with interest.
- **Secured credit card:** Credit card that typically requires a cash security deposit. The larger the security deposit, the higher the credit limit. Secured cards are often used to build credit history.

Individual and group work

- Organize students into groups of four.
- Distribute one "Cosigning loans and sharing credit" worksheet to each group.
 - Optional: You may also choose to distribute either the "All about credit scores" handout or the "Credit scores: An infographic" handout to give students more background information on how credit usage may affect credit scores.
- Tell students they'll work together to explore the benefits and risks of cosigning loans or sharing credit.
- Give each group a credit scenario strip.
 - Tell groups they have 15-20 minutes to read the scenario, explore the suggested website(s), and complete the benefits and risks list on their worksheets.
- Students will work together to complete the benefits and risks list, but they'll answer the reflection questions on their own.

Wrap-up

- Ask each group to share their scenario and their benefits and risks list.
- Allow other students to ask questions about each scenario.
- If time allows, ask volunteers to share their answers to the reflection questions.

Suggested next steps

Consider searching for other CFPB activities that address the topic of borrowing, including getting loans and managing credit. Suggested activities include "Reading about credit scores" and "Shopping in Credit City."

Two more CFPB resources that can help students learn more about managing credit and credit scores are the "Want credit to work for you? Start with these steps" booklet (https://files.consumerfinance.gov/f/documents/cfpb_your-moneyyour-goals_credit_booklet_cobrand.pdf) and the "Understanding credit scores" poster, which can be downloaded or ordered from <https://pueblo.gpo.gov/CFPBpubs/CFPBpubs.php?PubID=13469>.

Measuring student learning

Students' responses during discussion and on their worksheets can give you a sense of their understanding.

The answer guide on the next page provides possible answers for the "Cosigning loans and sharing credit" worksheet. **Keep in mind that students' answers may vary, as there may not be only one right answer.** The important thing is for students to have reasonable justification for their answers.

Answer guide

Scenario 1

Joe and his son Cory have had a joint credit card since Cory was in college. Cory graduated 10 years ago and lives more than 1,000 miles away from his dad. Joe thinks it might be time to close this account. **What are the benefits and risks of this decision for Joe and Cory?**

Possible benefits:

- Joe will no longer be liable for any purchases Cory makes on this card if they close the account.

Possible risks:

- As joint account holders, both Joe and Cory will be responsible to repay any remaining balance when they close the account.
- Closing the card could lower their credit scores because (1) this card was a long-standing account and (2) it may increase their credit utilization rate. This is because part of a person's credit score is based on (a) the length of time an account is maintained and (b) the amount of credit they have compared with the amount they've used, which is known as the credit utilization ratio.

Scenario 2

Carys is trying to buy some new clothes with her credit card, but her purchase is declined because she has reached the limit on her card. She and her husband share that credit card. **What are the benefits and risks for Carys's husband in this scenario?**

Possible benefit:

- Both Carys and her husband will be able to see all of their purchases on that card.

Possible risks:

- Carys's husband also won't be able to use their card until they pay down some of the balance.
- Joint credit cards affect both account holders' credit scores. Using too much of their available credit – a high credit utilization rate – can lower their credit scores. This is because part of a person's credit score is based on the amount of credit they have compared with the amount they've used; this is known as the credit utilization ratio.
- Removing a joint account holder is difficult, if not impossible.
- Carys and her husband are both legally responsible for paying for all purchases.

Scenario 3

Dante's parents are concerned that he won't be able to get a credit card because he's always lived with them and hasn't had any bills in his own name. They are thinking about making him an authorized user on their credit card. **What are the benefits and risks of this option for Dante's parents?**

Possible benefits:

- Dante will have access to a credit card.
- Dante's parents will be able to see all of his purchases on that card.
- His parents can remove him as an authorized user on the account at any time.

Possible risks:

- Although Dante can make purchases, only his parents will be legally responsible for those purchases.
- If either Dante or his parents have excessive credit card charges or miss payments on the card, it could hurt the other's credit score, too.
- His parents' credit scores could be hurt if adding Dante increases their credit utilization rate. This is because part of a person's credit score is based on the amount of credit they have compared with the amount they've used; this is known as the credit utilization ratio.
- Being an authorized user on his parents' account won't necessarily help Dante build his own credit history. Not all banks and card issuers provide authorized users' card payments to the credit reporting bureaus. Dante and his parents would need to confirm that his payment history will be reported.

Scenario 4

Angel and Esperanza are newly married, and they get a lot of mail from credit card companies. They currently have separate credit and loan accounts and have never thought about opening a joint account. But now they wonder if they should also get a joint credit card instead of only keeping their separate accounts. **What are the benefits and risks of getting a joint credit card account?**

Possible benefits:

- Both Angel and Esperanza can make purchases on the account.
- If one person has a better credit score than the other, opening a joint account may mean they get a lower interest rate than on their own.

Possible risks:

- Both account holders are equally responsible for making payments on the account, regardless of who made the transaction.
- Joint accounts are listed on both account holders' credit reports, which can be good or bad depending on how they manage the account.

Scenario 5

Sophia needs more money for college. She has already borrowed the maximum amount of available federal loans, which don't require a cosigner, but her college costs exceed the maximum federal loan amount. She is considering private student loans, which typically require a cosigner. Her mom is willing to cosign a loan. **What are the benefits for Sophia and the risks for Sophia's mom if she cosigns a loan?**

Possible benefits for Sophia:

- Having a cosigner allows Sophia to borrow the money she needs for college.
- Having a cosigner may allow a student to borrow at a lower interest rate if the cosigner has a good credit record.

Possible risks for Sophia's mom:

- As a cosigner, Sophia's mom is equally obligated to repay the loan.
- Sophia's mom's credit score can be harmed if Sophia is late making payments.
- Sophia's mom's credit score could be hurt if the loan increases her credit utilization rate. This is because part of a person's credit score is based on the amount of credit they have compared with the amount they've used; this is known as the credit utilization ratio.

Scenario 6

Brickale is a service member who's heading overseas soon. He and his wife, Jill, have separate credit cards. Brickale likely won't use his credit card while on his tour of duty, and he is considering closing the account and transferring the balance to his wife's credit card to protect his credit. **What are the benefits and risks of this arrangement?**

Possible benefit:

- Closing the account could protect Brickale from identity theft. But an option that would protect his credit better would be to put a freeze on his credit file. Security freezes, also known as credit freezes, restrict access to your credit file, making it harder for identity thieves to open new accounts in your name. However, credit freezes do not prohibit access to your credit file by existing creditors.

Possible risks:

- Since Brickale is in the military, he can take advantage of the Servicemembers Civil Relief Act, which limits the amount of interest a person can be charged for certain loans or other obligations **they took out prior to entry into active duty military service**. He cannot take advantage of this protection if he transfers the balance.
- It's possible that closing an existing credit card could hurt Brickale's credit score, rather than help it, if it was a long-term account.
- Transferring the balance to his wife's card could hurt his wife's credit score if it increases her credit utilization rate. This is because part of a person's credit score is based on the amount of credit they have compared with the amount they've used; this is known as the credit utilization ratio.
- Brickale and his wife may have to pay a fee to transfer the balance, and the transferred balance may carry a different interest rate.
- By transferring the balance, Brickale's wife becomes solely responsible for the balance.

Scenario 7

Athena wants to buy a car. She can't get a loan on her own, so she has asked her sister Carmen to be her cosigner. **What are the benefits for Athena and the risks for Carmen if she cosigns the loan?**

Possible benefits for Athena:

- Athena is more likely to get her loan approved with the additional loan repayment guarantee.
- Athena may get a better interest rate with a cosigner.

Possible risks for Carmen:

- When you cosign a loan, you are responsible for the full amount of the balance. So, Carmen will be as responsible for making these payments as Athena is.
- The lender can seek to collect the amount due from either the primary borrower (Athena) or the cosigner (Carmen).
- Carmen's credit score could be hurt if the loan increases her credit utilization rate. This is because part of a person's credit score is based on the amount of credit they have compared with the amount they've used; this is known as the credit utilization ratio.

Scenario 8

Caleb wants to start building his credit. His parents are encouraging him to use the \$500 he earned over the summer to open a secured credit card. **What are the benefits and risks of this option for Caleb?**

Possible benefits:

- Generally, Caleb can build credit with a secured card, but he should be sure to ask his card issuer about reporting to the credit reporting companies.
- Many of these cards include a “graduation” component, so you can move from a secured card to a traditional credit card seamlessly after establishing a pattern of consistent payments.

Possible risks:

- Secured cards can come with a number of different fees, so before Caleb chooses a secured card, he should consider applying to see if he can be approved for a regular credit card that may have fewer or lower fees.

Credit scenario strips

- Print one single-sided copy of the scenarios and cut into strips.
- Give one scenario to each group of students.



Scenario 1

Joe and his son Cory have had a joint credit card since Cory was in college. Cory graduated 10 years ago and lives more than 1,000 miles away from his dad. Joe thinks it might be time to close this account. **What are the benefits and risks of this decision for Joe and Cory?**

The resource below may help as you prepare your response:

<https://www.consumerfinance.gov/ask-cfpb/> (Recommended search terms: joint credit cards, closing a credit card)

Scenario 2

Carys is trying to buy some new clothes with her credit card, but her purchase is declined because she has reached the limit on her card. She and her husband share that credit card. **What are the benefits and risks for Carys's husband in this scenario?**

The resource below may help as you prepare your response:

<https://www.consumerfinance.gov/ask-cfpb/> (Recommended search terms: credit limits, spouse, and credit scores)

Scenario 3

Dante's parents are concerned that he won't be able to get a credit card because he's always lived with them and hasn't had any bills in his own name. They are thinking about making him an authorized user on their credit card. **What are the benefits and risks of this option for Dante's parents?**

The resource below may help as you prepare your response:

<https://www.consumerfinance.gov/ask-cfpb/> (Recommended search terms: joint applicant, authorized user)

Scenario 4

Angel and Esperanza are newly married, and they get a lot of mail from credit card companies. They currently have separate credit and loan accounts and have never thought about opening a joint account. But now they wonder if they should also get a joint credit card instead of only keeping their separate accounts. **What are the benefits and risks of getting a joint credit card account?**

The resource below may help as you prepare your response:

<https://www.consumerfinance.gov/ask-cfpb/> (Recommended search term: joint credit card)



Scenario 5

Sophia needs to borrow more money for college. She has already borrowed the maximum amount of available federal loans, which don't require a cosigner, but her college costs exceed the maximum federal loan amount. She is considering private student loans, which typically require a cosigner. Her mom is willing to cosign a loan. **What are the benefits for Sophia and the risks for Sophia's mom if she cosigns a loan?**

The resource below may help as you prepare your response:

<https://www.consumerfinance.gov/ask-cfpb/> (Recommended search term: cosigner)

Scenario 6

Brickale is a service member who's heading overseas soon. He and his wife, Jill, have separate credit cards. Brickale likely won't use his credit card while on his tour of duty, and he is considering closing the account and transferring the balance to his wife's credit card to protect his credit. **What are the benefits and risks of this arrangement?**

The resources below may help as you prepare your response:

<https://www.consumerfinance.gov/ask-cfpb/> and <https://www.consumer.ftc.gov/blog/2018/09/free-credit-freezes-are-here> (Recommended search terms: closing credit card, credit freezes, military)

Scenario 7

Athena wants to buy a car. She can't get a loan on her own, so she has asked her sister Carmen to be her cosigner. **What are the benefits for Athena and the risks for Carmen if she cosigns the loan?**

The resource below may help as you prepare your response:

<https://www.consumerfinance.gov/ask-cfpb/> (Recommended search terms: cosigning loan, auto loan)



Scenario 8

Caleb wants to start building his credit. His parents are encouraging him to use the \$500 he earned over the summer to open a secured credit card. **What are the benefits and risks of this option for Caleb?**

The resources below may help as you prepare your response:

<https://www.consumerfinance.gov/ask-cfpb/> and https://files.consumerfinance.gov/f/documents/201702_cfpb_building_credit_from_scratch_oah.pdf

(Recommended search terms: secured credit card)