# WORKSHOP SIX: CREDIT & LOANS

**Advanced Preparations for Workshop 6:**

**Set-up:** Prepare room for class with adequate chair/table arrangement and sign-in sheets. Set up projector and PowerPoint slides. If facilitating an online session, set up the slides and Zoom meeting room.

**Materials Needed For This Class:**

1. Attendance sheet
2. Whiteboard (or virtual whiteboard)
3. Facilitator Guide
4. Student Guide: Workshop 6
5. Laptop & projector
6. PowerPoint slides: Workshop 6
7. Paper and pens or pencils
8. Calculators
9. "How Does Credit Work?" Handout
10. "Debunking Smart Credit Myths" Handout
11. "How to Improve Your Credit Score" Handout
12. "Definition and Examples of Predatory Lending" Handout
13. Credit Card Fact/Fiction Activity

**Learning Objectives:**

*Upon conclusion of Workshop 6, participants will:*

1. Have learned the basics of how credit works and understand basic credit terms
1. Understand the pros and cons of credit
2. Know how to identify for themselves a comfortable line of credit
3. Understand the importance of credit reports and credit scores
4. Have learned effective techniques to pay down credit cards
5. Understand loans, loan contracts, interest rates, and the pros and cons of taking out a loan
6. Be able to identify the warning signs of predatory lending

## Welcome Back & Group Sharing

**Facilitator:**

**Suggested time:** 10 minutes

**Materials:** Attendance sheet; PowerPoint slides; Community Agreements

**Teaching:**

Welcome back the participants. Take attendance. Go over the Community Agreements and the day's agenda.

**Discussion:**

Begin sharing with one facilitator going first. Sharing should include how the week has gone relating to money and finances and how the money saving ideas are going. If there have been any savings as a result of using the ideas, this should be shared, with an estimated dollar amount. Ask participants to share how their budgets are going. Give each participant, and the facilitators, 2-3 minutes to share.

## Understanding Credit

**Facilitator:**
**Suggested time:** 10 minutes
**Materials:** PowerPoint slides; Student Guide p. 99-102; Workshop 6 Handouts 1-3; whiteboard

**Teaching:**

Facilitators should reference the Student Guide to explain the basics of how credit works and encourage participants to offer examples of each step of the credit process. Write these examples on the whiteboard. Provide participants with the "How Does Credit Work?" and "Debunking Smart Credit Myths" handouts.

Discuss what credit reports and credit scores are and how they are calculated. A credit report is an accumulation of information about how you pay your credit bills and repay loans, how much credit you have available, and what your monthly debts are. Your credit report is used to calculate your credit score, which is a three-digit numerical representation indicating how risky a borrower you are from a lender's perspective. Your credit score number reflects your credit risk level, with a higher number indicating lower risk.

Emphasize that the best way to have "healthy" credit is to have a few credit cards that you pay on time every month. Being on top of your bill payments, including credit card payments, can improve your credit score over time.

After this, go over the FAQs about Credit Scores listed in the Student Guide. Then, ask the class: *What are some examples of why a good credit score and credit report are important? What are some activities* (maybe examples from their Financial Goals/Action Plans) *that would require good credit?* Pass out the "How to Improve Your Credit Score" handout. Emphasize how empowering building credit and improving one's credit score can be, as it opens up many opportunities for financial resilience and stability.

Write the following terms on the whiteboard and explain their meaning: credit limit, late fees, "secured credit cards," grace period, interest rate. Use the Student Guide for reference. These terms will help prepare participants for the following activity.

## Facts About Credit

| |
|---|
| **Facilitator:**<br>**Suggested time:** 10-15 minutes<br>**Materials:** PowerPoint slides; Student Guide p. 103-104; whiteboard; credit card fact or fiction cards |

**Activity:**

This Credit Card Fact or Fiction game is an opportunity to make this workshop more interactive. Similar to the *Checkbook Writing Activity* from Workshop 4, it can be done in-person with printed-out cards or virtually with the PowerPoint slides. There are 10 statements about credit that participants will determine are true or false. The printable cards are located in the Workshop 6 Handouts in the Facilitator Toolkit.

Go through each card (either printed out on each participant's desk or on the PowerPoint slides). Ask participants to take turns reading their cards to the class. The group will decide whether the statement is true or false. Facilitators should give more detailed information about each one and explain why the sentence is true or false.

**Card #1:**

| |
|---|
| When a credit card company sets limits on how much can be charged on a card, it's based on your ability to handle debt |

***Explanation:*** **TRUE.** This is called a credit limit – the maximum amount of credit a credit card company or bank will allow a client to use. Beginner cards often have lower credit limits, and a person's credit limit can increase over time and as their credit report improves with good credit management.

**Card #2:**

| |
|---|
| Late fees, if you don't pay your bill on time, can be as high as $35 |

***Explanation:*** **TRUE.** Late fees (if you do not pay your bill by the day the grace period expires) can be costly. It can be helpful to write yourself reminders or sign up for automatic credit card payments to avoid these fees.

**Card #3**

| |
|---|
| Usually, the lower your credit score, the higher your credit card interest rates will be |

***Explanation:*** **TRUE.** Consumers with higher credit scores tend to receive lower interest rates than consumers with lower credit scores. This is because a higher credit scores signifies a history of paying back credit responsibly.

**Card #4**

| |
|---|
| The grace period for credit cards is usually about 30 days |

***Explanation:*** **FALSE.** A grace period is usually about 25 days. A grace period is the period between the end of a billing cycle and the date your payment is due. Your credit card statement must be made available to you no later than 21 days before the due date.

**Card #5:**

| |
|---|
| Secured credit cards can be a good option for someone with poor credit or no credit |

***Explanation***: **TRUE.** Secured credit cards are “secured” with a cash balance, which the bank or company will keep if you do not pay your bill. Because these credit cards are secured by a cash deposit, they are easier for people will bad or no credit to qualify for.

**Card #6:**

| |
|---|
| If you charge over your limit on a secured credit card, the bank can take the balance from your account |

***Explanation:*** **TRUE.** The balance acts as collateral for the bank or credit card company in case you do not pay you bill.

**Card #7:**

| |
|---|
| Making the minimum payments saves you money |

***Explanation***: **FALSE.** Making minimum credit card payments may save you money in the short-run, but it will cost you a lot in the long-run. Paying the minimum on your credit card will take longer to pay off the debt, which in turn will cause you to accumulate even more interest.

**Card #8:**

| |
|---|
| If you pay less than the minimum payment, your card will be deactivated |

***Explanation:*** **TRUE.** The minimum payment is the LEAST amount you can pay to keep the card active. If you pay less, your card will be deactivated.

**Card #9:**

| |
|---|
| If your credit card is lost or stolen, or has been used without your permission, you will be responsible for only the first $100.00 of unauthorized charges if you report it right away |

***Explanation***: **FALSE.** If you notify the authorities right away, you will be responsible for only the first $50 of unauthorized charges.

**Card #10:**

| |
|---|
| If you pay your bill in full during the grace period, you won't have to pay a finance charge on purchases for that bill |

***Explanation:*** **TRUE.** Paying your bill in-full during the grace period ensures you won't have to pay late-fee finance charges.

**Teaching:**

Go over some basic credit card safety tips, such as how to keep credit card numbers safe and what to do if a card is lost or stolen. Next, briefly discuss the material on interest rates in the Student Guide as they relate to credit.

Emphasize that the best practice for paying credit card interest, which can add up significantly over time (leading to credit card debt), is to pay one's credit card bill in full. If that's not possible, an individual should try to pay as much over their credit card minimum payment as possible (even just $10 more each month can reduce credit card interest).

## Pros & Cons of Credit; Paying Down Credit Cards

**Facilitator:**

**Suggested time:** 10 minutes

**Materials:** PowerPoint slides; Student Guide p. 105-107

**Discussion:**

Ask the participants to suggest several pros and cons of credit, using examples from the Student Guide or their own experiences. If you are facilitating in-person and have access to a whiteboard, you can draw a Pros & Cons table and one facilitator can fill it in while the other is leading the discussion.

If you're facilitating online, we suggest using the Zoom whiteboard feature or a shared Google Document. You can create a pros & cons table in this document table before class and either invite participants to fill in the table in small groups, using their computers, or go through it all-together, with one facilitator leading the discussion and the other typing in participants' suggestions. Write down their suggestions and discuss each one.

Next, briefly discuss the tips in the Student Guide for building and maintaining healthy credit habits. The most important thing is to pay your bills on time, in full, and pay as much over the minimum payment as possible.

1. Pay your credit bills on time.
2. Do not accumulate too much credit debt. If it starts to add up, stop using your credit card until you have paid off that debt.
3. Monitor your credit reports to look for errors and to avoid identity theft.

Using the information in the Student Guide, discuss how acquiring a lot of credit can add up quickly and become hard to pay off. Go through the signs that a person's credit card debt is becoming difficult to manage. For example, taking out new loans or credit cards to pay off old ones or paying so much on credit that the amount they owe from one month to the next never goes down.

Ask participants to add any additional examples to the list, then write down the three steps for paying down credit cards on the whiteboard:

1. Stop using your credit card(s)
2. Pay off the card with the highest interest first
3. Pay more than the minimum due

Go over them one by one, explaining the rationale behind each one. Invite questions and discussion. Let the participants know that in the next Workshop, they will learn a number of techniques and resources for paying off debts, including credit card debts.

Next, go through the steps to build and maintain good credit, briefly discussing the list of credit cards that can help you build credit if you have no credit history or a low credit score. Emphasize that you are not recommending any of these cards, just providing resources.

## Understanding Loans

**Facilitator:**
**Suggested time:** 15-20 minutes
**Materials:** PowerPoint slides; Student Guide p. 108-111; whiteboard; calculators

**Teaching:**
Provide an overview of what loans are and the many different reasons people take out a loan as described in the Student Guide. Explain similarities and differences between loans and credit (contractual obligations, how lenders assess risk). Ask participants to offer additional examples of reasons a person might take out a loan and write them down on the whiteboard.

**Activity:**
Similar to what you did with credit, create a pros and cons table on the whiteboard and add one example under each. Ask participants to offer more suggestions for the benefits and drawbacks of loans. Feel free to refer back to the previous list of reasons for taking out a loan. Ask participants what they might do with the different scenarios and if they would proceed with obtaining a loan or wait and save enough money for the purchase or project.

**Teaching:**
Using the information in the Student Guide, list the different terms that are commonly used in loan contracts on the whiteboard and what they mean. These terms include: principal, loan term, and fixed, variable, or split-interest rates. Go over their meanings, paying special attention to the different types of interest rates. Make sure to leave space for questions and comments.

Use the example table in the Student Guide to illustrate how much more a person can end up paying when their loan has a high-interest rate. This is a good time to caution participants about one of the key drawbacks of taking out a loan -- paying a lot in interest.

**Optional Activity:**

As an optional activity, ask participants to calculate how much a person could end up paying on a loan over time in different scenarios, using different interest rates. They can use the interest rate on a personal loan, if they have one, or facilitators can provide examples. Note: the examples used in the Student Guide are based on a fixed APR.

*How to calculate interest rate costs:* multiply the loan amount by the interest rate (.10 for a 10% rate). This will show the approximate cost per year. Then multiply that number by the number of years estimated to pay off the loan. This will show the approximate total amount spent on interest. Remind participants that these numbers are approximate and if they would like to have more accurate numbers, there are online resources to calculate interest rates accurately. If they don't want to use their calculators to determine these costs, participants can use a website that will do the calculations for them.

## Predatory Lending

**Facilitator:**
**Suggested time:** 10-15 minutes
**Materials:** PowerPoint slides; Student Guide p. 112-114; "Predatory Lending" handout; whiteboard

**Teaching:**

Using the information in the Student Guide, explain the definition of Predatory Lending. Predatory lending is defined as any lending practice that enforces deceptive, unfair, and/or abusive loan terms on borrowers. Pass out the "Definition and Examples of Predatory Lending" handout. Facilitators should write down the different types of potentially dangerous loans on the whiteboard: Payday Loans, Pawn Shop Loans, Title Loans, High L-TV Home Equity Loans, and Advance-free Loans. These are examples of loans that could become predatory.

Ask the participants to volunteer to read the warning signs of predatory lending in the Student Guide and connect these warning signs to different types of loans on the whiteboard. There are some videos in the Facilitator Toolkit that may be useful for explaining this section and keeping the class engaged.

Discuss steps to take to avoid predatory loans and the steps to take if someone is already engaged in a loan that is predatory. Provide the class resources and handouts from the Toolkit for how to get out of this kind of situation.

## Wrap-up

| |
|---|
| **Facilitator:**<br>**Suggested time:** 10 minutes<br>**Materials:** PowerPoint slides; Student Guide p. 22 |

**Teaching:**

Go over the Homework Assignments for this week:

1. Ask participants to choose one more money saving idea and commit to it for the next week. Facilitators will commit to an additional idea as well.
2. Encourage participants to revisit their budgets and revise them if needed. Ask them to commit to their budget for another week.
3. The next workshop is focused on debt and debt payment strategies. In order to prepare for next class, ask the participants to follow the steps in the Student Guide on page 119 for tallying up total debts.
    a. Participants will access their credit reports online for free to figure out what debts they have and how much they owe.
    b. Using the worksheet in the Student Guide or Workshop 7 Worksheets, they will create a list of all their debts, indicating how much they owe, the interest rate, and the minimum payment for each debt.
    c. Emphasize that this activity may take some time, but it is a huge first step towards working one's way out of debt. It is essential that participants complete this assignment and bring this activity to class to get the most out of the next class.
    d. *Facilitators can complete this activity as well, if they think they would benefit from it. If facilitators or participants do not have any current debts, then they do not need to do this activity, and participants have the option to skip the next workshop.*

**Discussion:**

Ask if anyone has any questions. Thank everyone for their participation and let them know that the facilitators are available via phone and email between classes if anyone has any questions or issues.

**After Class:**

1. Facilitators fill out class reflection forms at the end of each class.
2. Facilitators should plan to meet in advance of the next class to plan, practice, and compare notes from the previous class.

# FACILITATOR REFLECTION:

This form should be filled out by both facilitators immediately upon conclusion of the class while impressions and details are still fresh.

| **Thoughts about the class:** |
|---|
| |
| **Lessons learned:** |
| |