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# 3. How to Use Credit

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## Did you know?

### **Wealth and Income**

Wealth is what you own minus your debts (financial assets minus liabilities). It is the money you have saved and the property you own (for example, a house). Your income is what you get paid for your work (your paycheck). One fifth of the population in the U.S. has no assets or owe more than they own (negative assets) (United for a Fair Economy, Boston, MA).

The average Latino family has \$7,200 in assets, while the average White family has \$49,000.



## UNIT 3: HOW TO USE CREDIT

### Lesson 1: What is Credit?

#### Lesson Objectives:

- Students will understand why credit is important
- Students will understand when to use credit
- Students will be familiar with the different types of credit and debt

#### Language Skills:

- Speaking, listening, reading, writing
- Grammar Review: past tense, phrasal verbs

#### Vocabulary:

- Consumer debt
- Convenience debt
- Credit
- Credit limit
- Debt
- Interest
- Investment debt
- Loan
- To pay back
- Right away

#### Introduction Activity: Discussion

The discussion can give the teacher an idea of how much students already know and what experience they already have with the topic. Have students discuss these questions in a small group or with the entire class.

1. How can a credit card be good? Bad?
2. Who has a loan?
3. Are loans good or bad?
4. What is interest?

Remember, again, cultural differences will play a factor in this discussion. Credit is a much more risky and less common financial tool in countries with unstable currencies. Also, different cultures value debt (or rather lack thereof) in different ways. Help students learn from each other by discussing their ideas about credit.

**Vocabulary Exercise:**

**Match the following words with their definitions.**

You could also have students write sentences or dialogues using the vocabulary words below.

1. Consumer debt

Money you use to buy something because you think its price will go up in the future.

2. Convenience debt

A fee that you pay for borrowing money. It is usually a percentage (%) of the amount you borrowed.

3. Credit

Money you borrow because you want to buy something now instead of waiting to save enough money.

4. Credit limit

Money you borrow to pay for things that don't last a long time.

5. Interest

An agreement to borrow money and pay it back later.

6. Investment debt

Money that you borrow or your ability to borrow money.

7. Loan

The maximum amount you are allowed to borrow.

8. To pay back

To do something quickly.

9. Right away

To give back the money that you owe.

## Reading Practice: Introduction to Credit

### What is credit?

Credit lets you buy things now and pay for them later. You have to pay a fee, called interest, for credit. The most common types of credit are credit cards and loans. If you have credit, you may be in debt. This means that you owe money to the person or company that gave you the credit.

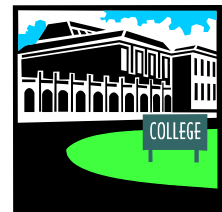
### Who has credit?

In the United States, most people have credit. Most adults have credit cards and a loan for a car or a house. Credit can help you manage your money, but you should use credit very carefully.

### Why do people have credit?

Most people in the U.S. have credit cards and loans. If you use credit carefully, it can be very helpful. The best way to use credit is to use it to buy something that will last a long time. For example, to buy a house, to buy a car or to study. Here are some reasons to use credit:

1. You can use credit to pay for things that will help you get a better job, like college classes or job training.
2. You can use credit to buy a home. It may take you too long to save enough money to buy a home without a loan.
3. You can use a credit card to pay for an emergency, like a visit to the hospital or car repairs.
4. You may want to buy something before you have enough money saved to pay for it. You will have to pay extra to have it right away. This extra fee is called interest.
5. You may want to buy something now because it is on sale. Be sure that the money you will save is **MORE** than the interest you will pay on your credit card!
6. If you travel, it may be easier and safer to carry a credit card instead of cash. If you lose your credit card or it is stolen, call your credit card company immediately to cancel the card.



7. You also need a credit card to reserve or rent things like hotel rooms and cars when you travel.
8. If you like to shop over the telephone or on the Internet, you will need a credit card to pay for what you buy.



### Comprehension Questions:

1. What do you call the fee that you have to pay when you use credit? Interest
2. What are some good reasons to use credit? To pay for education or training, to buy a house, to pay for an emergency, to buy something on sale, to make reservations and not keep cash when traveling, etc. In general, the article you purchase should last longer than your payments.

### Speaking Practice:

Bring old catalogs so the students can make the experience more real.

**Review the following words and try to find the meanings. Then work with a partner to role-play calling on the phone to buy something from a catalog.**

Phrasal verbs:

Pick up the phone \_\_\_\_\_

Hang up the phone \_\_\_\_\_

Get on the phone \_\_\_\_\_

Get off the phone \_\_\_\_\_

Get through \_\_\_\_\_

Other words and expressions:

Place an order \_\_\_\_\_

Answer the phone \_\_\_\_\_

The line is busy \_\_\_\_\_

Redial \_\_\_\_\_

#### Situation 1:

Caller: Call your favorite store. Place an order for a shirt. Tell the operator the size and color you want.

Receiver: Take the order from the caller. Ask for the caller's address and phone number.

#### Situation 2:

Caller: Call your favorite store. Tell the operator you have not received the shirt you ordered.

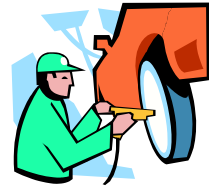
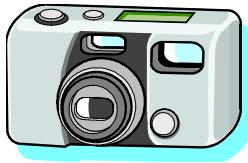
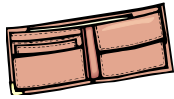
Receiver: Tell the caller that you will try to find out the problem and will send her the shirt.

**Skills Practice: When to use Credit?**

Mike has money saved for an emergency fund. He also has money saved for a vacation. He knows it is very important to pay his credit card bill fully at the end of the month. When should he use his credit card? When should he use cash? For which examples should he wait until he saves enough money before he buys it?

Write “credit card,” “cash” or “wait” beside each situation:

- 1. Mike buys airplane tickets on the Internet. \_\_\_\_\_
- 2. Mike eats in a nice restaurant for lunch. \_\_\_\_\_
- 3. Mike buys gas at a gas station for his car. \_\_\_\_\_
- 4. Mike needs to buy a winter coat. \_\_\_\_\_
- 5. Mike wants to buy a new TV. \_\_\_\_\_
- 6. Mike has to repair his car. \_\_\_\_\_
- 7. Mike buys food at the grocery store. \_\_\_\_\_
- 8. Mike wants to buy a nice camera. \_\_\_\_\_



**Grammar Activity: Past Tense**

Mike already bought all the things he needed. Rewrite the sentences from the previous activity using the past tense.

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_
- 4. \_\_\_\_\_
- 5. \_\_\_\_\_
- 6. \_\_\_\_\_
- 7. \_\_\_\_\_
- 8. \_\_\_\_\_

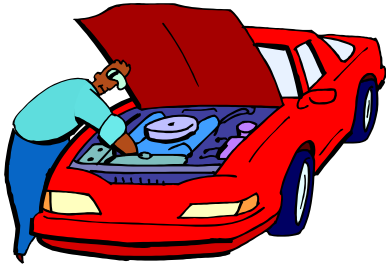
## Reading Practice: Types of Debt

There are three kinds of debt: investment debt, convenience debt and consumer debt.

**Investment debt** is when you borrow money to pay for something that will increase in value, like a home. Home prices usually increase over time. You may be able to sell the house for more than you paid. Other examples of investment debt are college loans or job training and home improvement loans. College loans and job training are a way of investing in yourself. Your job will usually pay you more if you have more education. Home improvements increase the value of your house, so you can sell it for more money later. Investment debt is the best kind of debt.



**Convenience debt** is when you use credit to buy something expensive and pay over a long period of time. A car loan is an example of convenience debt. Instead of paying for the car at one time, you can pay a little bit each month. You have to pay interest for this convenience. Another example is using your credit card to pay for emergencies like doctor bills or car repairs. If you are careful, convenience debt can help you manage your money.



**Consumer debt** is when you use credit to pay for daily things that do not last a long time. Using your credit card to pay for things like groceries or going to the movies is an example of consumer debt. You should try to avoid consumer debt, unless you pay your credit card bill in full and on time every month.

**Important Note: Pay your bill in full**

Remember to pay your bill in full and on time each month. That way you don't have to pay interest.

**Important Note: Predatory Lenders**

There are some companies that offer loans that you shouldn't trust. They can charge you very high interest rates and extra fees. Sometimes they require that you buy life insurance that doesn't protect you but protects the company. Sometimes they promise easy money and they tell you they will not check your credit report. You can stay in debt and they can repossess, or take away, things that belong to you like your car or house. This can ruin your credit history. Don't use payday loans, where you can get a loan before you get your paycheck. Don't use pawnshops, don't use your car title to get a loan and don't use your home as collateral. Only apply for loans with companies or organizations that you trust and only apply for the amount of money you need.

**Review Activity:**

Look at the pictures below. What kind of debt would you use if you bought the item in the picture? Write investment, convenience or consumer debt below the picture.



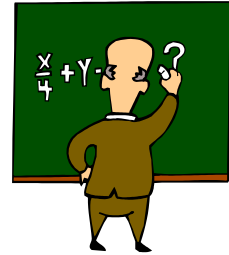
1. Investment  
Investment



2. Convenience



3. Consumer



4.



5. Convenience  
Consumer



6. Consumer



7. Investment



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**Homework:**

Write a short composition giving advice to someone on how to use credit.

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**Evaluation:**

Write one thing you learned.

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What is one thing that you do not understand?

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**Teacher Evaluation:**

What did the students find difficult or challenging about this lesson?

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What did the students learn that was NOT in the lesson plan?

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What worked well in this lesson?

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What will I change about this lesson for the next time?

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Restate the lesson goals. Were they achieved?

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## UNIT 3: HOW TO USE CREDIT

### Lesson 2: What is my Credit History?

#### Lesson Objectives:

- To understand the importance of a credit history
- To know how to get a copy of your credit report
- To know how to have a good credit history
- To know how to correct your credit history

#### Vocabulary:

- Bankruptcy
- To bounce a check
- Collateral
- Co-sign
- Credit bureau
- Credit history
- Credit report
- Error
- To establish
- Individual Tax Identification Number (ITIN)
- Non-penalty extension
- On time
- To overdraw
- Repossess
- Secured loan

#### Language Skills:

Speaking, listening, reading, writing  
Grammar Review: present perfect

#### Introduction Activity: Discussion

The discussion can give the teacher an idea of how much students already know and what experience they already have with the topic. Have students discuss these questions in a small group or with the entire class.

1. What happens when someone can't pay the bills?
2. What do you know about a "credit history"?

## Vocabulary Exercise:

Define each of the following words. If you do not know a definition, you can leave it blank. Try the exercise again after reading the following dialogue. Circle the vocabulary words in the dialogue. Use the dialogue to help you find the definitions.

Remind the students that it is not necessary to know all the words in a passage in order to understand the passage. Emphasize the use of context in reading unfamiliar passages. As an alternate activity, you could have students write sentences or dialogues using the vocabulary words below.

### 1. Bankruptcy

When you don't have money and cannot repay your debt. It will be very hard to ever get a loan again. Tony cannot pay his bills but he doesn't want to declare bankruptcy.

### 2. To bounce a check

To write a check when there's no money in the account to pay the check. Henry bounced a check because he didn't know how much money he had in his account.

### 3. Collateral

Something you own that you use to guarantee a loan. The lender can take it away if you do not repay the loan. A home mortgage is a loan with collateral. Victor's car is the collateral for his car loan.

### 4. Co-sign

To help another person get a loan. If the person does not repay the loan, the co-signer has to repay it. Lucy is a co-signer for her sister's loan.

### 5. Credit bureau

The company that has your credit report. This company keeps a record of all your loans and credit card accounts. Sally wrote to the credit bureau to get a copy of her credit report.

### 6. Credit history

A record of all the loans and credit cards that you have had. It tells if you repay your loans on time and how many times you apply for loans. Kevin has some problems with his credit history.

### 7. Credit report

A form that describes all your debt. Your credit report tells your credit history. Kevin read his credit report yesterday.

### 8. Error

Something done incorrectly. A mistake. Crystal saw an error on her credit report.

### 9. To establish

To start something that will be permanent. Kimberly wants to establish a credit history.

### 10. ITIN

Individual Tax Identification Number. A number given by the IRS or tax office to people who cannot get a social security number. It can be used to file taxes, receive interest and apply for loans. Josefina applied for a loan with her ITIN.

### 11. Non-penalty extension

The company lets you pay your bill late without charging you a fee. Jason asked the telephone company for a non-penalty extension.

### 12. On time

At the agreed time. Not too late. Andrea pays all her bills on time.

### 13. To overdraw

To pay with money that you don't have in the account. The teller told Silvano that it is not good to overdraw his checking account.

### 14. Repossess

To take away the collateral. For example, if you do not repay your car loan, the lender can take away the car. Victor could not pay his car loan so the lender repossessed the car.

### 15. Secured loan

A loan with collateral. Omar applied for a secured loan to buy a house.

## **Dialogue 1: Listening / speaking / pronunciation**

The dialogues can be used in various ways, depending on the ability and comfort levels of the class. The teacher may record the dialogue on a cassette or videotape before class and use it as a listening exercise. Students can write down the words they hear. Two or more students can read the dialogue aloud in class. Remind students to listen for vocabulary in the context of the dialogue. Teachers can also use this dialogue as a “cloze” activity where students fill in the blank on missing words. Other ways to use the dialogues include using parts of it as a dictation and/or for pronunciation purposes.

Kim gets a letter from a credit card company.

**Kim:** David, this letter says that I can apply for a credit card. I can borrow money to buy things with this card, and pay later. I only have to make small payments every month. What a good deal!

**David:** I don't know, Kim. Credit cards can be useful, but you have to be very careful with the credit card you choose and how you use it. You have to pay interest on the money you borrow. You may not get approved. Do you have a credit history?



**Kim:** I don't know. What is a credit history?

**David:** A credit history is a record of all the loans and credit cards that you have had. It tells if you pay your bills on time.

**Kim:** Why is it important?

**David:** Credit card companies and other institutions that give loans review your credit history before they give you credit. If you have never borrowed money in the United States, you do not have a credit history.

**Kim:** How can I learn if I have a credit history?

**David:** There are several companies that will give you a copy of your credit report. You can call these companies. Their names are Equifax, Experian or TransUnion. If you are a member of a credit union, ask them for help.

**Kim:** What are these companies?

**David:** These are companies that will give you a copy of your credit report. They are called credit bureaus. You will need to give them your social security number

**Kim:** What if I don't have a valid social security number?

**David:** If you don't have a social security number, give them your Individual Tax Identification Number (ITIN).

**Kim:** What is the Individual Tax Identification Number?

**David:** It is a number given by the IRS or tax office to people who can't get a social security number. It helps you file your taxes and apply for loans.

**Kim:** Thanks, so is the credit report free?

**David:** No, you will have to pay about \$10 to get a copy of your credit report, but it is important!

**Kim:** What will my credit report tell me?

**David:** Your credit report will tell you a lot of information. Most importantly, it tells what loans and credit cards you have had. It tells if you repay your money on time. Court cases and bankruptcies are also on your credit report. It may list where you have worked or lived before. Companies that have looked at your credit report will also be listed on the report.

**Kim:** Will it have personal information like my immigration status?

**David:** No. Your credit report will NOT include information about your race, religion, political ideas, medical history or criminal record.

**Kim:** I still don't understand why I need a copy of my credit report.

**David:** You need a copy of your credit report so that you know what credit companies see. If you ask for a loan, the bank or credit card company will see your credit report. If you have a bad credit history, you may not get the loan or credit card or you may have to pay a higher interest rate.

**Kim:** Can anyone else look at my credit report?

**David:** Yes, when you apply for an apartment or job, some companies look at your credit report. If you have a bad credit history, they may not hire you or lease you the apartment. If you know what your credit report says, you can begin to make it better.

**Kim:** Thank you, David. I will order my credit report today.

**Comprehension Questions:**

1. How can Kim get her credit report?

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2. Why should Kim get her credit report?

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3. List three things your credit report tells you.

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4. List three things your credit report does NOT tell you.

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**Important Note: The Individual Tax Identification Number (ITIN)**

People who cannot get a valid social security number can get the Individual Tax Identification Number or ITIN from the tax office (IRS). With this number, people can file their taxes, receive interest on their bank accounts and apply for a loan with some financial institutions. They can use this number to start a credit history. If you need to request an ITIN, go to your local IRS office. In some places, community centers can help you request this number. Do not pay a lot of money if you get someone to help you complete the papers to get this number.

**NEVER** apply for a loan with a social security number that is not valid. It is better to find a financial institution that will accept the ITIN. The ITIN is **NOT** a work permit, so don't use it to work. You should start filing your taxes every year when you get your ITIN number (see unit 6). The tax office (IRS) will not give your information to the immigration office (INS).

**National Foundation for Credit Counseling:**

1-800-388-2227

**Credit Bureaus** (To obtain a copy of your credit history):

**Equifax**

1-800-685-1111

[www.equifax.com](http://www.equifax.com)

**TransUnion**

1-800-916-8800

[www.transunion.com](http://www.transunion.com)

**Experian**

1-800-682-7654

[www.experian.com](http://www.experian.com)

**Skills Practice: Example of a Credit Report**

**Kim gets a copy of her credit report. How does she read it?**

The credit report on the following page is only an example. Yours may not be exactly the same. If you use this example, you should be able to read your credit report.

Tan, Kim L.  
156 Fifth Avenue  
Townville, SD

**FILE NUMBER:** 10445231  
Former address reported:  
651 Birch Street  
Cityville, WV

**Contact Bureau and Personal Data**

**Date of Report:** 8/17/02      **Social Security Number:** 123-45-6789  
**Contact Bureau:** Area Branch      **Date of Birth:** 12/08/70

**Employment Data**

**Employer:** Toy Company      **Location:** Townville, SD      **Position:** Manager      **Date Verified:** 8/17/05

**Employer:** Old Business      **Location:** Cityville, WV      **Previous Employment(s) Employment Date:** 9/12/96      **Date Verified:** 10/12/98

**Public Records**

No bankruptcies on file      No foreclosures on file      No financial counseling on file

**Credit Information**

**Beacon score:** 630

**No accounts referred to a collection agency**

Company Name	Account Number	Whose Acct.	Date Opened	Last Activity	High Credit/Credit Limit	Terms	Items as of Date Reported			Date Reported
							Balance	Past Due	Status	
Credit Cards 4U	1010101	I	6/95	9/02	\$5000	\$20	\$1180	\$0	R1	08/02

Prior Paying History: 30 days past due 01 times; 60 days past due 0 times; 90+ days past due 00 times.

ABC Bank      2546387      I      8/01      9/02      \$8000      24      \$3560      \$750      R2      09/02

Prior paying History: 30 days past due 03 times; 60 days past due 02 times; 90+ days past due 00 times.

Bank of the Town      3284962      J      3/95      3/99      \$15000      48      \$0      \$0      R3      4/01

Prior paying History: 30 days past due 02 times; 60 days past due 02 times; 90+ days past due 01 times.

**Credit Inquiries**

**Date:** 6/13/04      **Subscriber Name:** ZXY Consumer Disclosure      **Subscriber Telephone Number:** 654-321-9870  
12/29/03      The Financial Corporation      258-369-0147  
5/06/03      Credit Data/Money Corporation      741-085-2963

**Promotional Inquiries**

**Date:** 7/23/04      **Subscriber Name:** My Bank  
1/30/04      Friendly Credit Union

**Account Review Inquiry**

**Date:** 2/08/04      **Subscriber Name:** ABC Bank

**Consumer Statement**

Based on the information you provided, our bureau records indicate you have no consumer statements.

**Special Messages**

Based on the information you provided, our bureau records indicate you have no special messages.

If you believe any of the information in your credit report is incorrect, please let us know. Please address all correspondence regarding your credit report to:

**Contact**

**Bureau:** Credit Bureau Area Branch  
**Bureau:** PO Box 36523  
**Address:** Capital, MN 78931  
800-123-4567

**Business Hours:** 8:30 A.M. to 4:30 P.M.  
Monday though Friday,  
except major holidays

## Reading a Credit Report:

Use this information to help students understand how to read a credit report. Explain that they can use this as a reference to help them read their own credit report.



1. The first part of the credit report has **personal information**. It will tell you your name, address, social security number (or Individual Tax Identification Number) and date of birth. It may also tell you when your credit history began and where you have worked.
2. The second part of the credit report has **public records**. It will tell if you have ever gone to court or declared bankruptcy.
3. The third part of your credit report tells your **credit history**. Here you will find your Beacon score, which is like the grade you received for your credit history. In this example, Kim has a Beacon score of 630. It also mentions if some of the accounts have been referred to a collections agency. These agencies try to get back the money you owe to the company. Some financial institutions will not give you a loan if you have any collections.

This section lists every loan you have had and how you have paid.

- “Company Name” – the name of the credit company that gave you the loan or credit card.
- “Account Number” – the account number of the loan or credit card.
- “Whose Account” or “Account Type” – Who is responsible for the account?
  - “I” means individual. The account is in your name only.
  - “J” means joint. The account is in your name and someone else’s name.
  - “C” means co-sign. You are responsible for the account if the other person does not pay.
- “Date Opened” - the date that you opened, or started, the account.
- “Date of Last Activity” - The last time you used the account. It is the date of your last payment or the date of the last time you used this account.
- “High Credit or Credit Limit” – For a credit card, this is your credit limit, or the most you can spend. For a loan, this is the total amount of the loan.
- “Terms” – The number of months you have to pay the loan OR the amount of the monthly payment on your credit card.
- “Balance” – How much you owe on the date that the credit report was issued.

- “Past Due” – Past due payments are payments you did not pay on time. If you have any past due payments at the time the credit report was issued, the amount will be listed here.
- “Status” – a code that says what kind of loan you have. It also tells if you repaid your loan or if you made late payments.
  - “O” means open. You have to pay the entire balance every month. Telephone and electric bills are examples of open credit.
  - “R” means revolving. Credit cards are revolving credit.
  - “I” means installment. Loans are installment credit.
  - The number next to the letter is your credit rating. The numbers represent the months you have paid late. A “1” means that you have paid that bill on time. A “9” means you did not pay your loan responsibly. If you have a number higher than “4,” you may have trouble getting loans or credit cards in the future.
- “Date Reported” – The last day the credit company sent information to the credit reporting company.

The next parts of the credit report list companies that have looked at your credit report.

4. **Credit inquiries** list companies that have looked at your credit report because you wanted to borrow money from them in the past six months. **If you apply for too many loans or credit cards, it can hurt your credit rating. Companies will think that you are trying to borrow too much money and will have too much debt.**



5. **Promotional inquiries** list companies that have looked at your credit because they wanted to offer you a loan or credit card even if you did not contact them. These inquiries do not affect your credit rating.

6. **Account review inquiries** are companies that are currently lending you money. These inquiries do not affect your credit rating.

Finally, you can add **consumer statements** or **special messages** to your credit report. If you would like to explain something about your report, you can send a letter to the credit bureau. They will put this information in your credit report as a consumer statement.

## Comprehension Questions:

Look at Kim's credit report and answer the following questions.

1. Does Kim have a loan? How much did she borrow?

Yes. Kim had two loans. She paid one loan of \$15,000. She has another loan. She borrowed \$8,000. She is still paying this loan.

2. Does Kim have a credit card? When did she open her credit card account?

Yes. She started her account in June of 1995.



3. Has Kim ever filed bankruptcy? No.

4. Have any companies looked at Kim's credit report in the past two years? Yes.

5. Do you think Kim has good credit? Would you lend Kim money? Why or why not?

Any answer is acceptable as long as the student justifies it.

6. ¿Why is it important for Kim not to apply for too many loans or credit cards? If she asks for too many loans or credit cards, her credit report will have a long list of companies that have asked for her information. Maybe they will not give her credit because she could have too much debt.

## Dialogue 2: Listening / speaking / pronunciation

**Kim:** David, I looked at my credit report. I didn't realize I had missed so many payments. How can I change my credit history?

**David:** Well, you cannot change the report, but you can make it better in the future.

**Kim:** What about using companies that promise to improve my credit report?

**David:** Be very careful with those companies, Kim. Most of them charge you a lot of money for things you can do yourself. The National Foundation for Credit Counseling is a non-profit organization that can give you advice. Your bank or credit union may also have credit counseling services.

**Kim:** What can I do to improve my credit report?

**David:** First, make sure there are no mistakes. If there is a mistake, call or write to the credit bureau. Try to find any receipts or cashed checks that can help you prove that it is a mistake.



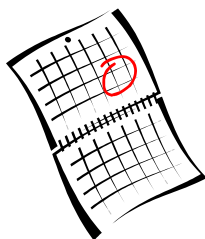
**Kim:** If there are no mistakes on the report, then what should I do.

**David:** The best way to make your credit history better is to pay all your bills on time. Do not bounce checks. It will take time, but the only way to build a good credit rating is to show that you can use credit well.

**Kim:** Isn't there anything else I can do?

**David:** You can write to the credit company and add a statement to your credit report. You can explain why you missed payments. If you had a good reason, creditors will consider it.

**Kim:** What if I can't pay my bills?



**David:** Do not borrow new money to pay your debt. Call or write to the company. Ask them for a non-penalty extension. This means that you can pay your bill late without paying a fee. If they will not give you an extension, ask about a payment plan. They may let you pay smaller amounts over a longer period of time. Be honest with the company and call them as soon as you begin to have problems. They are usually helpful.

**Kim:** So, the best way to have a good credit history is to use my money carefully and not borrow too much money?

**David:** Exactly!

## Comprehension Questions:

1. What should Kim do if she finds mistakes in her credit report?

She should call or write to the credit bureau. She should try to find any receipts or cashed checks that can help her prove that there is a mistake.

2. What should Kim do if she cannot pay her bills?

She should not borrow more money to pay her debt. She should call or write to the companies and ask for a non-penalty extension or for a payment plan.

### **Important Note: Negative Information on your Credit Report**

Information about late payments, payments you didn't make or any other negative information can stay on your credit report for seven years. That is why it's so important to pay all your bills on time. Some companies report a payment as late if you pay one day late! Sometimes, companies stop sending you bills that you still haven't paid (for example, some hospitals and doctors). This doesn't mean that they forgot about the money you need to pay them. If they have a collection agency trying to get the money from you, this information will be on your credit report. When you move, you should call and cancel (or transfer) all the services. If you don't, the telephone and cable company will still charge you even if you don't receive the bill.

If you have not paid back money that you owe, try to pay it back immediately or ask if you can make monthly payments. If you had to pay late because of an emergency (illness, unemployment, divorce or other problem), write a letter to the credit bureau to explain what happened.

If you declare bankruptcy, this information can stay on your credit report for 10 years. You should do everything you can so you don't have to declare bankruptcy. People who declare bankruptcy cannot get a loan for many years and may have to pay very high interest rates when they do receive a loan.

## Reading Practice: General Requirements to Apply for a Loan

When someone applies for a loan, the person will have to complete an application. The institution will make sure that the person can pay the loan back or make the payments on the credit card. Generally, companies and institutions that give loans and credit cards want to see the following:

- 1) You need to have a good credit history. If you don't have a credit history, some companies may want to see that you pay your electricity, rent and telephone bills on time. This is called an "alternative" credit history.
- 2) You need to have a stable job.
- 3) You need to have a stable address.
- 4) You need to show how much you get paid. You will have to show your recent paycheck stubs.
- 5) You should not have too many debts or expenses. Some companies want to see that you don't spend more than 20% of your money on loans and credit cards. For example, if you make \$1,000 a month, you should not spend more than \$200 a month in loans and credit cards.
- 6) You need to have a good credit score called the Beacon score. This is like your grade in a report card. Many companies want to see a Beacon score of more than 680 points.

Many people who think they have a good chance of getting a loan may not receive the loan or the credit card. When you apply, it doesn't mean that you will automatically receive the loan. If the company tells you they cannot give you the loan or the credit card, you have 30 days to contact a credit bureau and get a copy of your credit report for free.

### Dialogue 3: Listening / speaking / pronunciation

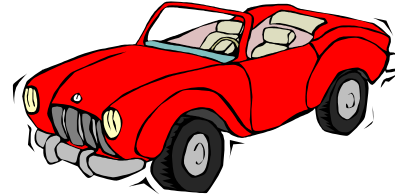
**Kim:** I have one more question. My brother does not have a credit history, how can he start one?

**David:** First, he can open a checking or savings account. He should not overdraw on his checking account. He should try to save a little bit every month.

**Kim:** OK. What else?

**David:** He could apply for a secured loan.

**Kim:** What is a secured loan?



**David:** A secured loan is when you put something you own as a guarantee of the loan. This something is called collateral. The institution that gives you the loan can take away something you own if you don't pay your loan. A car loan is a secured loan. The car is the collateral. If you do not pay your loan, they can take the car away. This is called repossessing the car.

**Kim:** Is there any other way to get a secured loan?

**David:** Some credit unions and banks have special loans to help you start a credit history. You deposit some money and then take out a loan for the same amount. If you do not repay the loan, they take the money you deposited. Secured loans help you establish a history of making your payments on time. Make sure you don't pay too much in interest.

**Kim:** Does he have any other options to establish a credit history?

**David:** Yes. He could apply for a loan or credit card with a co-signer. This person should have a good credit history. He should be careful! If your brother doesn't pay his bills, the co-signer will have to pay them.



**Kim:** What about those credit cards from department stores?

**David:** Department store credit cards are a good way to start a credit history. He can start with a small balance and make sure he pays it in full every month so he doesn't have to pay interest.

**Kim:** Thank you, David. Now I have some information for my brother!

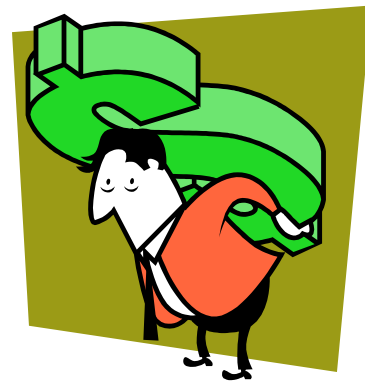
## Comprehension Questions:

Choose the best answer to complete each sentence.

1. Companies that promise to erase your bad credit: d
  - a. Can erase bad things from your credit report
  - b. Can give you a loan
  - c. Never help anything
  - d. May charge a lot of money for things you can do yourself.
  
2. If there is a mistake on your credit report, you should: c
  - a. Do nothing. There is no way to correct it.
  - b. Call the credit reporting company and cry
  - c. Call and write to the credit reporting company and tell them the report is wrong. Show them receipts or cashed checks to show that there is an error.
  - d. None of the above are correct



3. You can improve your credit history by: a
  - a. Making all your payments on time
  - b. Bouncing checks
  - c. Paying one credit card bill with money borrowed from another credit card
  - d. All of the above are correct
  
4. A secured loan is: b
  - a. A loan you don't have to pay back
  - b. A loan with collateral
  - c. A loan without interest
  - d. None of the above are correct
  
5. You can build a good credit history by: d
  - a. Paying all your bills on time
  - b. Applying for a secured loan
  - c. Getting a department store credit card and paying off the balance every month
  - d. All of the above are correct



### **Important Note: Who Doesn't Have a Credit History?**

People who don't have a credit history have never had a loan or credit card in the United States. Sometimes people have a loan with a company that does not report the information to a credit bureau. Some immigrants, people who have just started to work and young people may not have credit. Some women may not have credit because all the credit is in their husband's name. If you do not have credit, take the necessary steps to start a credit history.

### **Summary: Steps to Start my Credit History**

Follow these steps to start your credit history:

- 1) Get your Individual Tax Identification Number if you can't get a **valid** social security number.
- 2) Open a savings account.
- 3) Save as much money as you can so you don't have to borrow money in an emergency.
- 4) If you have a checking account, don't write checks if you don't have money to pay them.
- 5) Pay all your bills on time.
- 6) Put bills for services like the rent, electricity and telephone in your name. If you are married or live with family members, decide what bills can be under each person's name. This way, every person can have bills in their name.
- 7) If you don't have a credit history, apply for a small loan or a credit card. Pay the credit card bill in full every month. Don't pay too much in interest if you apply for a loan. Don't rent furniture or appliances to buy the items ("rent to own") because you will pay from two to four times their price when you finish paying them.

### **Activity Suggestion:**

Review the present perfect with the class. Use the following activity to explain the use of present perfect.

### **Skills Activity: Avoiding Problems with your Credit**

If you will not be able to make a payment on your loan, you should contact the institution that gave you the loan immediately. If you find an error in your credit report, you should contact the credit bureau. If you are getting married and your name will change, you need to tell the credit bureau. Include your name, address, date and account number in any letters you send. Always keep copies of the letters.

**Answer the following questions.**

1. Mary finds an error on her credit report. Which letter should she send to the credit reporting company? Letter# 2
2. Mary wants to get a loan. Her credit report says she missed several payments on an earlier loan. Mary wants to explain the missed payments. Which letter should she send to the credit reporting company? Letter # 1
3. Mary cannot afford to make her loan payment right now. She will be able to pay it after she gets paid at the end of the month. Which letter should she send? Letter # 3

To Whom It May Concern:

I have looked at my credit report and would like to explain the late payments.

This is about my car loan with the City Credit Union. In July, I lost my job. I could not make the payments while I was unemployed. I found a new job in October and immediately began to make payments again. I have not missed any other payments.

Please include this explanation in my credit report and provide a copy to those individuals who ask about my credit history.

Sincerely,  
Mary Saran

LETTER #1

To Whom It May Concern:

My credit report says I have not paid my bill at The Big Store. I have an account there, but I have never missed a payment. I called The Big Store on April 24 and spoke to Jane Manager. She said that there was a mistake in the billing record. She said that she will report the correct information to your credit bureau. A letter from Ms. Manager is attached. Please correct the error on my credit report. Thank you.

Sincerely,  
Mary Saran

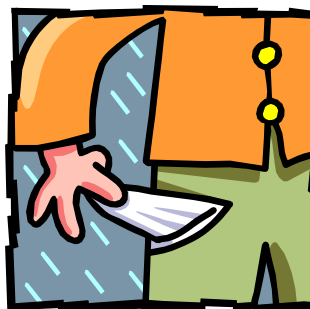
LETTER #2

To Whom It May Concern:

Because of temporary financial problems, I will not be able to make my loan payment #2673108 this month. I have never missed a loan payment before. I have included a good faith payment of \$20.00. Please give me a non-penalty extension until the first week of next month. I will make the entire payment at that time. Thank you. If you have any questions, please call me at 323-4545.

Sincerely,

LETTER #3



**Important Note: Identity Fraud**

Identity fraud happens when someone uses your personal information to get loans or credit cards without your permission. Don't give your social security number or ITIN or any other personal information to a company you don't know. If someone calls you on

**Review Activity:**

Match the vocabulary words to their definitions.

1. Credit bureau	Something that the lender can take away if you do not repay the loan.
2. Collateral	A form that describes all your debt. Your credit report tells your credit history.
3. Credit report	A record of all the loans and credit cards that you have had. It tells if you repay your loans and credit cards on time.
4. Bankruptcy	The company lets you pay your bill late without charging you a fee.
5. Credit history	The company that writes your credit report. This company keeps a record of all your loans and credit card accounts.
6. Non-penalty extension	When you don't have money and cannot repay your debt. It will be very difficult to get a loan again.
7. Repossess	A loan with collateral.
8. To overdraw	To help another person get a loan by promising to repay the loan.
9. Secured loan	To pay with money that you don't have in your account.
10. Co-sign	To write a check when there is no money to pay the check.
11. To bounce a check	To take away the collateral.
12. Individual Tax Identification Number	A number given by the IRS or tax office to people who cannot get a social security number.



**Evaluation:**

Write one thing you learned.

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What is one thing that you do not understand?

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**Teacher Evaluation:**

What did the students find difficult or challenging about this lesson?

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What did the students learn that was NOT in the lesson plan?

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What worked well in this lesson?

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What will I change about this lesson for the next time?

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Restate the lesson goals. Were they achieved?

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## UNIT 3: HOW TO USE CREDIT

### Lesson 3: How to Use Credit

#### Lesson Objectives:

- Students understand how to use a credit card
- Students will know how to choose a credit card
- Students will know how to complete a credit card application
- Students will understand how to know if they have too much debt

#### Language Skills:

Speaking, listening, reading, writing  
Grammar Review: questions

#### Vocabulary:

- APR
- To afford
- Balance
- Cash advance
- Credit card
- Credit limit
- Credit line
- Due
- Fee
- Grace period
- Maximum
- Minimum
- Perk

#### Introduction Activity: Discussion

The discussion can give the teacher an idea of how much students already know and what experience they already have with the topic. Have students discuss these questions in a small group or with the entire class.

1. Are credit cards popular in your country? Why or why not?
2. Do you have a credit card in the U.S.? Why or why not? If yes, how did you get your credit card?
3. Discuss what you know about credit cards.

## Vocabulary Exercise:

Define each of the following words. If you do not know a definition, you can leave it blank. Try the exercise again after reading the following dialogue. Circle the vocabulary words in the dialogue. Use the dialogue to help you find the definitions.

Remind the students that it is not necessary to know all the words in a passage in order to understand the passage. Emphasize the use of context in reading unfamiliar passages. As an alternate activity, you could have students write sentences or dialogues using the vocabulary words below.

### 1. APR

The interest that a credit card charges you is calculated as the Annual Percentage Rate or APR. Susan's credit card charges 20% APR.

### 2. To afford

To have enough money to be able to buy something. Juan can afford to buy a car right now because he has money in his savings account.

### 3. Balance

The amount of money that you owe or the amount that you have in your savings account. Luisa has a balance of \$150 on her credit card.

### 4. Cash advance

Money that you receive from your credit card and you have to pay later. You will have to pay a fee or interest. Missy knows that it is expensive to receive a cash advance.

### 5. Credit card

A card that lets you buy things and pay for them later. Myrna has a credit card that she can use if she has an emergency.

### 6. Credit limit

The total amount of money that you can spend using your credit card. Myrna has a credit limit of \$600 so she cannot spend more than that with her credit card.

### 7. Credit line

An amount of money that a store or company lets you spend using credit. Pablo's credit line is \$300 so he is buying a sofa for \$285.

### 8. Due

Money you have to pay on a certain day. Alma's payment is due on the 25<sup>th</sup> of August.

### 9. Fee

An amount of money that you have to pay for services. Paul has to pay \$50 as an annual fee for his credit card.

### 10. Grace period

A period of time you have for making a payment. Randy has a grace period of 30 days to pay his credit card bill.

### 11. Maximum

The largest amount possible. Erica can't use her credit card because she already used the maximum amount that she can spend.

### 12. Minimum

The smallest amount possible. Erica's minimum payment on her credit card is \$15 a month.

### 13. Perk

To receive something extra like a gift. Some credit card companies offer free gifts for using their card. Todd likes receiving the perks that his credit card company gives him.

## Skills Practice: How to Select a Good Credit Card

There are many different credit cards. How do you choose the right one for you?

Look at the following examples of credit cards. Use the chart to decide which credit card is best for you.

The annual fee is a fee that you have to pay every year. This fee doesn't depend on how many times you use your card.

APR is the Annual Percentage Rate. It's the interest rate. Some credit cards have an introductory APR. This low interest rate will only last for a few months. After the introductory period, the rate will increase.

The grace period is usually one month. If you pay off your bill in this amount of time, you will not have to pay interest. This is why you should try to pay off your balance every month.

This is the most money you can spend with your card.

The smallest amount you can pay each month

If you make a payment late, you will have to pay a fee. You will pay this fee even if you are only one day late.

A cash advance is when you go to a bank or ATM and take out cash using your credit card. Cash advances usually have high interest rates. Try not to use cash advances.

If you spend more than your "credit limit", you will have to pay a fee.

Some cards offer special "gifts" like frequent flyer miles. These "perks" will not save you a lot of money. Don't choose a credit card only because you like the perks.

Credit Card Name	Annual Fee	APR	Credit Limit	Minimum Payment	Grace Period	Late Payment Fee	Over-the-Limit Fee	Cash Advance APR	Perks
Flight Visa	None	3.9% Intro.; 19.9%	\$10,000	3% or \$15	30 days	\$29	\$29	24.9%	Frequent Flyer Miles
Gas Master Card	None	13.9%	\$5,000	3% or \$15	30 days	\$34	\$34	19.9%	"Cash back" on gas
Discover Your Life	\$75	8.9%	\$20,000	3% or \$20	30 days	\$50	\$50	8.9%	"Cash back" when you use the card

1. What is good about each credit card?

Flight Visa: no annual fee, intro. rate low, high credit limit, frequent flyer miles, lower fees

Gas Master Card: no annual fee, medium rate, cash back on gas, lower advance APR

Discover Your Life: low interest rate, high credit limit, cash back



2. What is bad about each credit card?

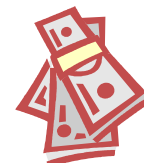
Flight Visa: higher permanent rate

Gas Master Card: low credit limit, higher fees

Discover Your Life: annual fee, higher fees

3. Which credit card would you choose?

Students may choose different credit cards based on their priorities.



**Speaking and Writing Activity:**

Work with a partner to write five questions that you want to ask about a credit card to find out more information. Use the previous activity on how to select a good credit card to help you write your answers. Ask about the annual fee, interest rate, perks, fees and other information. Then role-play asking these questions to a partner.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

**Important Note: Use Credit Cards Carefully**

For some people it's very difficult to use a credit card and pay the full amount every month. It may be better for them to use a debit card instead of getting a credit card (see unit 1).

If you do get a credit card, try not to use your maximum credit limit. For example, if your credit limit is \$500, don't go out and spend \$500 with your credit card. If you do, this may affect you when you apply for a loan.

Some department store credit cards charge high interest rates, so be careful with these cards. Some credit card companies ask you to pay money in advance to receive a lower interest rate on the card. Some of these credit cards may not be a good option for you. You will still have to pay an annual fee plus extra fees.

## Writing Practice: Completing a Credit Card Application

Teachers may want to use an actual credit card application instead.

Companies have a simple process of applying for a credit card. Before you apply for a credit card, you need to understand how much they will charge you in interest and fees. Don't apply for too many credit cards at one time. Doing this can hurt your credit history. If you want to apply for a credit card, find the best one for you first and then apply.

**Complete the following credit card application to understand what credit card companies will ask you when you apply for a card. You do not have to include personal information if you don't want.** If you apply for a credit card and don't have a valid social security number, include your Individual Tax Identification Number.

### Credit Card Application BEST Credit Card Company

1. Please show us how you would like your name to appear on your card (full name)

\_\_\_\_\_

2. Please tell us about yourself

Email address \_\_\_\_\_

Title: \_\_\_ Mr. \_\_\_ Mrs. \_\_\_ Ms. \_\_\_ Dr.

First name \_\_\_\_\_ Middle initial \_\_\_\_\_ Last name \_\_\_\_\_

Date of birth \_\_\_\_\_ Social security number 012-34-5678

Home address \_\_\_\_\_ Apartment \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip code \_\_\_\_\_

Home phone \_\_\_\_\_ Years and months living at home address \_\_\_\_\_

Do you: \_\_\_ own \_\_\_ rent

Monthly rent or mortgage amount \$ \_\_\_\_\_

3. Please tell us about your employment

Company name \_\_\_\_\_

Street address \_\_\_\_\_ Floor/suite \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip code \_\_\_\_\_

Business phone \_\_\_\_\_ Years and months at this company \_\_\_\_\_

4. Please provide us with some financial information

Annual personal income \$20,000

Income source (where does this money come from?) \_\_\_\_\_

Do you have a: \_\_\_ checking account? \_\_\_ savings account?

Signature \_\_\_\_\_ Date \_\_\_\_\_

## Skills Practice: Using Credit

You have a credit card with a credit limit of \$500.00. You buy tools for work with your credit card. The tools cost \$400.00. Now you want to buy a winter jacket with your credit card. The jacket costs \$150.00.



**Answer the following questions:**

1. What is a credit limit?

The total amount of money that you can spend using your credit card.

2. Can you buy the jacket with your credit card? Why or why not?

No. My credit limit is \$500.00. That is the most I can charge on my credit card. The jacket and the tools cost \$550.00. That is over my credit limit. I cannot buy both.



**You make a payment to your credit card company for \$400.00.  
You have paid off your balance.**

3. Now, can you buy the jacket?

Yes. I can buy the jacket for \$150.00.

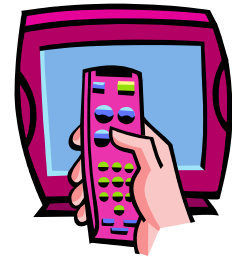
4. Can you also buy a television for \$250.00?

I can also buy the television for \$250.00. My balance is now \$400.00.

5. Can you buy the jacket, the television and a new suit that costs \$170.00?

I can't buy the suit because that would be a total of \$570. That is over my credit limit.

**The balance on your credit card is now \$400.00. You decide not to buy anything else with your credit card until you pay off the balance. The minimum monthly payment for your credit card is \$25.00, but you decide that you can afford to make payments of \$100.00 each month. Your credit card charges 20% APR. The APR is the interest rate.**



6. How long do you think it will take you to pay off the \$400.00 balance if you pay \$100.00 each month?

Any answer is acceptable.

7. How much interest do you think you will pay? Don't try to do the math. Just guess.

Any answer is acceptable.

8. Will you pay more or less total interest if you only pay the minimum monthly payment of \$15.00?

More

9. How will your interest change if you increase your payments to \$200.00 per month?

I will pay less total interest.

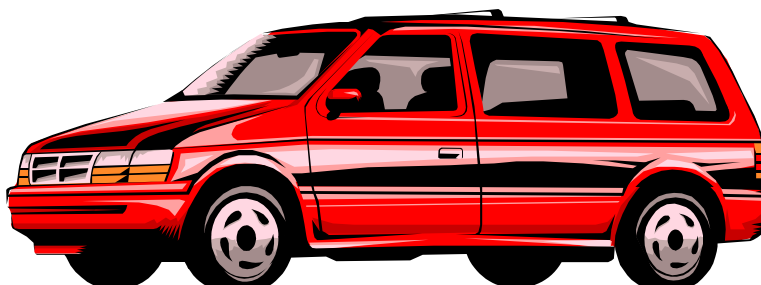
10. Look at the chart below for the actual amounts of interest you will pay with a \$400 balance. Do these answers surprise you? Is it better to make big payments or small payments?

Big payments are better.

Monthly Payment	Months to Pay Off	Amount in Interest	Total Cost of the Items
\$25.00	19	\$69.14	\$469.14
\$100.00	5	\$17.52	\$417.52
\$200.00	3	\$10.28	\$410.28

### Reading Practice: A Car Loan Example

You get a loan for \$7,000.00 to buy a car. The term of this loan is two years. This means that you have to pay back the loan in 2 years or 24 months. The interest is 15%. You will pay approximately \$340 each month for 24 months. You will pay a total of \$1,144.88 in interest. In total, you will pay \$8,144.88 for the car.



1. How will it be different if you pay the loan back in 4 years, or 48 months? Will you pay more or less for the car?

I will make smaller monthly payments but pay more total interest. The total cost of the car will increase.

Detailed answer: If you pay back the loan in 48 months, you will pay \$195 per month. You will pay \$2,351.51 in interest, so you will pay \$9,351.51 for the car.

2. How will your payments change if the interest rate is 10% instead of 15%?

My payments will be smaller each month.

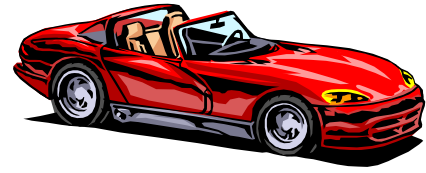
Detailed answer: If you pay the loan back in 48 months with a 10% interest instead of 15%, you will pay \$178 each month. You will pay \$1,518.88 in interest. In total, you will pay \$8,518.88 for the car.

### Important Note:

When thinking about loans and credit cards, remember that if you pay off your balance quickly, you will pay LESS interest!

## Reading Practice: When to use Credit

It is fine to have some credit if you are careful. Some purchases may be bad credit decisions for some people and good credit decisions for others. For example, it is good to get a small loan to buy a car so that you can go to work and earn money. It is bad to get a large loan to buy a car only because you want a nicer car.



Ask yourself these questions before you buy something on credit:

1. Do I really need it now or can I wait until I save enough money?
2. Will the item last longer than the payments?
3. Is it better to pay the interest and fees so I can buy it now?
4. Can I afford the payments?
5. What other options do I have?

## Skills Practice: Needs versus Wants

There is no limit to the things that people want to buy, especially since advertisements try to sell us products every day. That is why it is important to only use credit to buy what you need. Needs include paying your bills. Always pay what you already owe before you buy new things.

Which of these pictures are needs? Which are wants? Write “need” or “want” below each picture.



1. Need



2. Need



3. Want



4. Want



5. Want



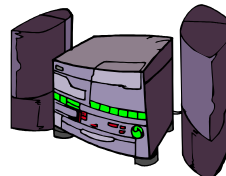
6. Want



7. Need



8. Need



9. Want



10. Need

**Speaking Practice:**

In pairs, discuss your answers to the previous exercise and explain why you wrote “need” or “want.”

Students may have different answers. This is fine, as long as they can explain why they answered this way.

**Important Note: Free Money in the Mail**

When you get a loan or credit card for the first time, the company that gave you credit may give your name to other companies. You may start receiving information in the mail offering you loans and even sending you checks for \$1,000 or more. Sometimes you will receive credit cards in your name. Be very careful! If you cash the checks they send you, you will have to pay the money back with interest rates as high as 32%. If you need a loan, it's better to ask at your bank or credit union.

## Reading and Writing Practice: Too Much Debt

Below are ten statements that mean you have too much debt. If any of these things are true about you, you should try to reduce your debt.

1. You spend more than 20 to 25% of your income to pay loans and credit card bills. For example, you make \$1,000 a month and you spend \$200 on loans and credit cards.
2. You borrow money to pay other debt.
3. You borrow money from your retirement account or credit card to pay your monthly bills.
4. You don't know how much money you owe.
5. You can only make the minimum payments on your credit card.
6. You miss payments or make payments after the due date.
7. Creditors call your home.
8. You have been rejected for a loan or other credit.
9. You write checks with a later date (postdate).
10. You work an extra job just to pay your bills.



**Think about these questions and write your answers below.**

1. Do you have too much debt?
2. What can you do to have less debt?

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**Review Exercise:**

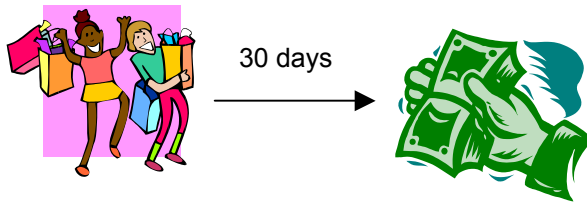
Match the following words to the correct pictures.

5



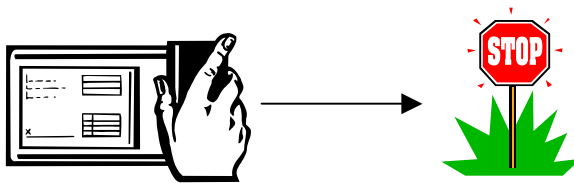
1. Credit Limit

3



2. Perks

1



3. Grace Period

4



4. Cash advance

2



5. Credit Card

**Homework:**

**Interview two native English speakers about how they use credit cards. In the space below, write the questions you will ask them. Your teacher will ask you to tell the class about your interviews.**

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**Evaluation:**

Write one thing you learned.

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What is one thing that you do not understand?

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**Teacher Evaluation:**

What did the students find difficult or challenging about this lesson?

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What did the students learn that was NOT in the lesson plan?

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What worked well in this lesson?

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What will I change about this lesson for the next time?

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Restate the lesson goals. Were they achieved?

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