

Credit Scenarios

Objective: Students will learn what credit is, how it can help or hurt you, and the steps a person should take to ensure they will begin their credit journey on the correct path.

Procedure:

1. Give each student a copy of the **Credit Scenarios handout**.
2. Read through the opening “Congratulations” paragraph with students. Tell the students, “Now that you are the credit expert, it is time to help the students around you!”
3. Allow students to work with a partner or on their own to read through each scenario and research each question as they come to it.
 - a. Because research is involved with this lesson, some form of internet connected device would be helpful for every student (or pairs of students) to have available to them.
4. Stop students once you see many of them have completed “Student File #1”. Discuss the advice they gave to Angelica.
5. Next read through the 2nd file together as a class (just the bullet points). Discuss any questions and allow students time to work with their partner on the rest of the handout.
6. If time permits, discuss the 2nd scenario.
7. Closure: Ask students what they learned that will help them as they approach the age where they will have the opportunity to build credit. What mistakes do they now know to avoid?

Activity 1: Credit Scenarios

Congratulations! You just graduated from college and landed your first job as a financial advisor for college students. Your job is to work with students to help them through their important financial choices as they navigate loans and purchases throughout their college experience. After all, the choices they make now will have an impact on the rest of their lives!

You sit down at your desk for the first day on the job and find you need to get ready for your first two appointments. Interestingly, both students are coming to you with a simple request, how to increase their credit score.

Student File #1

You open your first file to find that Anjelica, a college senior, has what credit experts would call a “thin file.” As this term suggests, a person with a “thin file” has little or no borrowing history, which often makes it difficult to build credit.

As you reviewed the handwritten notes from her first meeting, you noted the following:

- Excellent budgeting skills: uses an app to track all of her spending and keeps to her monthly budget.
- History of being responsible with her money and has avoided any debt except for a \$5,000 federal student loan.
- Not required to repay her student loan until after graduation.
- She says she learned her budgeting skills from her aunt, who has always paid off her credit cards each month and has an excellent credit score.

As you chat with Anjelica, you take some notes. Fill in the following with what you have learned about Anjelica, and your thoughts on her credit worries.

Use three adjectives to describe Anjelica’s money habits.

Should Anjelica be worried about her credit score? After all, she is still in college. Why or why not?

Anjelica's interest in credit scores came from an article she read ([Smart Credit Blog](#): What's the best way to build my credit score?) that discussed ways to build a credit score and the importance of having a good credit score.

Now that you have analyzed Anjelica's file, you still need to come up with some recommendations for moving her from having a thin file to having a good credit score. However, before you could get started, Anjelica appeared in the doorway, ahead of schedule, distraught as she waved this letter in her hand:

Pete DeLandlord

Portland Apartments

Portland, OR

March 22, 2020

Dear Angelica,

I regret to inform you that we are unable to approve your application to rent at this time. Your application has been denied for the following reasons listed below:

- Insufficient Credit File
- Insufficient Credit References
- No Credit File

We wish you the best of luck in finding an apartment.

Sincerely,

Pete DeLandlord

A very teary-eyed Anjelica was very confused, "How could this happen to me? How could they not rent this apartment to me? I have always been responsible in all aspects of my life, including my personal finances. I have a great job lined up after graduation in Seattle and loved this apartment complex. How can they not believe that I will be able to make the monthly rent payment? What can I do to fix this?"

You need to find a way to console this distraught student, fast! Quickly do a web search regarding college students and building credit history to help Anjelica with her situation. Fill in the chart on the following page with the information you find.

Give Your Best Advice!

3. Do a web search and find 3-4 ideas to help Anjelica build her credit history, file, and score. Be sure to take into consideration key details you know about Anjelica from her case file as well as her apartment renting goal.

Idea	Explanation	Source

After you review your chart with Angelica she feels much better! With an action plan in place, she knows she will be ready to rent by the time she moves to Seattle!

Time to get ready for your second appointment of the day!

Student File #2

Your 2nd file of the day is also for a college Junior, Chase. The thickness of his file told a very different story of financial habits. You reviewed the notes from his first meeting:

- Never had a budget. Not sure where his money is going.
- With 3 credit cards (that his parents cosigned on) he has run up a total of \$3,700 in debt. Paying minimum off every month and bumping up against \$4,000 total credit limit. The average interest rate on his credit cards is 23.2%.
- Loses track of his cell phone bill and rent checks and pays about ½ of those bills on-time. Angry about the late fees, penalties, and higher interest rates that keep appearing on his bills.
- Motivated now to be more financially responsible since he saw how difficult life has become for a friend of his who recently graduated with poor money habits.
- Interviewing for several part-time jobs (will work 10 hours per week) for state minimum wage \$14.20/hour.
- Parents are currently providing enough money to cover his basic needs (tuition, room and board and books) while in college, but Chase is responsible for his spending money.

You take notes and write down thoughts on his financial habits as you chat with him:

4. Use three adjectives to describe Chase's money habits.

5. What would you anticipate Chase's credit score to be? Give a range:

6. What factors in his profile led you to that conclusion?

Chase has said he responds well to detailed plans; he just does not know where to start since he has fallen into these financial habits. He knows that he wants to leave college in 12 months with 1) an improved credit score and 2) little or no credit card debt. You open the spreadsheet that you created for Chase's financial plan and start crunching some numbers ahead of the meeting.

7. As long as he's hired by someone, roughly how much can Chase earn in a month from his part-time job? Assume that his net pay is \$14.20/hour, 4 hours per day and assume 4.5 weeks per month, 3 days a week. How much will he make in a month before taxes are taken out?

8. Including interest his debt is \$3,500. If he wants to pay it off by the time he graduates, how much of each paycheck will he need to put toward his debt per month over the next two years before graduation? How much will he have left over each month?

9. Conduct internet research and develop three recommendations for Chase to help him improve his credit score. Be specific! Recall the five factors that go into a credit score and develop recommendations for Chase based on the details from Chase's case file.

Give Your Best Advice!

10. Conduct internet research and develop three recommendations for Chase to help him improve his credit score. Recall the five factors that go into a credit score and develop recommendations for Chase based on the debt payoff spreadsheet above and other details from Chase's case file.

Credit Score Factor	Specific Action Chase Should Take	Source

Chase is relieved to have an action plan in place! He thanks you and walks out your door confident he can make the necessary financial changes and be on a positive track.

11. After reflecting, do you think Anjelica or Chase will be more successful at improving their credit score and meeting their financial goals before graduation? Explain.