Lesson: *Credit Management*

Credit Management is a 60-minute interactive lesson. This lesson provides learners with the knowledge to build and protect their credit health and reduce the cost of credit.

Learning Objectives

At the conclusion of this lesson, learners should be able to make informed decisions about obtaining credit and establish good habits for using credit wisely.

Enabling learning objectives:

- Identify two wise uses of credit
- Identify two unwise uses of credit
- Explain terminology associated with credit
- Explain how to establish a credit history
- Describe how to reduce the cost of credit
- Identify credit management strategies and resources

Learning Activities

This lesson contains the following activities:

- What's the Best and Worst that Could Happen (2-minute large group discussion)
- How Much Does Credit Cost? (5-minute demonstration)
- Five Ways to Reduce Cost of Credit (3-minute small group discussion)
- Take Charge (3-minute large group discussion)
- Website Resources (2-minute demonstration)

Content Outline

1. Welcome and Introduction (2 minutes)
   - Welcome
   - Facilitator Introduction
   - Agenda

2. The Impact of Credit (6 minutes)
   - What's the Best and Worst That Could Happen?
     - Wise Uses of Credit
     - Unwise Uses of Credit
       - Routine Purchases
       - Impulse Buying
       - Spending to Feel Good
       - Spending for Status

        - Retaliatory Spending
    - Effects of Good and Poor Credit

3. Building Credit (5 minutes)
    - Qualifying for Credit
        - Character
        - Capacity
        - Collateral
    - Establishing Credit
        - Share-Secured Loan
        - Co-signed Loan
        - Retail Cards
        - Major Credit Cards

4. Credit Scores and Credit Reports (7 minutes)
    - Credit Scores
        - Five components of a Credit Score
            - Length of Credit History
            - Credit Utilization
            - Credit Mix
            - New Credit Accounts
            - Payment History
    - Score Ranges
        - FICO Scores
    - Credit Reports
        - Purpose
        - Credit Reporting Agencies
        - Credit Report Contents
            - Employment History
            - Payment History
            - Inquiries
            - Public Record Information
        - Annual Review
            - Free Annual Credit Report
            - Correcting Inaccurate Information
            - Fair Credit Reporting Act (FCRA)
            - Errors on Credit Report

5. The Cost of Credit (35 minutes)
    - How Much Does Credit Cost?
        - Credit Terms
            - Annual Percentage Rate (APR)
            - Variable Rates
            - Repayment Period
            - Grace Period

        - Minimum Monthly Payment
        - Credit Card Accountability, Responsibility, and Disclosure (CARD) Act
    - Credit Fees
        - Charged for Service
        - Balance Transfers
        - Charged for Consumer's Actions
        - Late
        - Over-the-Limit
        - Annual
        - Foreign Transaction
    - Loan Interest Calculations
        - Simple Interest
        - Add-on Interest
- Shopping for Credit
    - Credit Unions
    - Banks
    - Finance Companies
    - Retail Merchants
- Predatory Lending Practices
- Five Ways to Reduce the Cost of Credit
    - Pay Bills On Time
    - Get Preapproved
    - Shop Around and Compare Costs
    - Know the Terms
    - Servicemembers Civil Relief Act (SCRA)
    - Military Lending Act (MLA)

6. Recovering from Debt (5 minutes)
    - Credit Warning Signs
        - Critical Indicators
    - Take Action
        - Take Charge
            - Change Behavior
            - Prioritize Debts
            - Power Payment Plan
        - Seek Help
            - Talk to Creditors
            - Financial Counselors
        - Do Your Homework
            - Credit Repair Clinics / Repair Services
            - Debt Settlement Companies
            - Bankruptcy

7. Resources (2 minutes)
   - Websites
     - Office of Financial Readiness
     - Consumer Financial Protection Bureau
     - MilSpouse Money Mission
   - Additional Support Resources
     - Personal Financial Manager (PFM)
     - Personal Financial Counselor (PFC)

8. Conclusion (2 minutes)
   - Summary and Review
   - Final Questions

Training Materials

A laptop, projector, and screen are needed to project the PowerPoint presentation and videos, if applicable, during the training session. You will also need the following items to conduct the session:

- PowerPoint Presentation: *Credit Management*
- Handout:
  - *Understand Your Credit Score*
    www.mimm.gov/assets/pdfs/CreditScores.pdf

- Blank paper
- Pencils or pens
- Large chart paper or whiteboard (optional)
- Markers (optional)
- Internet connection (optional)

Using This Instructor Guide

The presenter is the most important part of delivering information. Make sure to familiarize yourself with the content in the lesson so that you can effectively discuss each key point during the training session. Review the material and practice delivering the content ahead of time in order to feel comfortable covering the material in your own words.

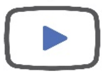
To use this Instructor Guide, review its various parts and components below.

The **Discussion Points** section contains the key points you must present in the training. The information should be presented in the order provided. Use the discussion points as a lesson outline. Avoid reading it word-for-word.

An ***Instructor Note*** provides guidance for the instructor in presenting the discussion points. This section also includes specific instructions on using the media, activities for learners, and references to any other documents or content.

This symbol indicates a handout is associated with the content.

This symbol indicates a discussion activity is associated with the content.



This symbol indicates a video is associated with the content.

Course Preparation

Being prepared for training promotes organization, projects a positive image, and reduces stress. To ensure you are prepared, review the following:

- *Credit Management* PowerPoint presentation
- References
  - DoD Instruction 1342.22, *Military Family Readiness*
  - DoD Instruction 1322.34, *Financial Readiness of Service Members*
- Resources:
  - www.annualcreditreport.com
  - Consumer Financial Protection Bureau
    www.consumerfinance.gov/
  - Fair Credit Reporting Act
    www.debt.org/credit/your-consumer-rights/fair-credit-reporting-act/
  - Federal Reserve System
    www.federalreserve.gov/
  - Federal Trade Commission
    www.ftc.gov/
  - FINRED loan calculators
    finred.usalearning.gov/ToolsAndAddRes/Calculators/Loan
  - MilSpouse Money Mission
    www.milspousemoneymission.org/

Instructor Note: Prior to the start of the session, print enough copies of each handout so each learner has a copy. Ensure you are familiar with home buying classes and resources available in the area. Be prepared to share that information with the learners.

Personalize your lesson. Use the white space on the left side of the page to add your own notes and prompts for discussions.

You can fill it with:

- Subject matter
- Detailed/technical information
- Instructional strategies and methods
- Personal experiences
- Examples and analogies

Discussion Points

Slide 1

1. Welcome and Introduction

Instructor Note: Display slide 1.

Welcome learners to the *Credit Management* lesson.

Gain learner attention and interest:

- Share a short story about the lesson topic
- Share a surprising fact about the lesson's topic(s)
- Ask learners to write down one thing they hope to learn from attending the training today

Facilitator Introduction

Introduce yourself by providing:

- Your name
- Your experience with the lesson topic, financial counseling experience, and/or professional/educational background

Instructor Note: Read the disclaimer to the group.

Disclaimer: *The information presented in this lesson does not constitute legal, tax, investment, financial, or other advice. This lesson is intended as an informational resource to assist you in identifying or exploring resources and options for managing your personal financial situation.*

Slide 2

Agenda

Instructor Note: Display slide 2. Briefly introduce the lesson topics.

In this lesson we will cover the following topics:

- The Impact of Credit
- Building Credit
- Credit Scores and Credit Reports
- The Cost of Credit
- Recovering from Debt
- Resources

Slide 3

2. The Impact of Credit

Instructor Note: Display slide 3.

Say: Credit has become a normal part of everyday personal financial management for most Americans. Used appropriately, it can be an excellent tool. Credit can be a building block to your financial success and good credit management can protect your financial health. Credit can influence almost every aspect of your life, not just your finances.

Slide 4

What's the Best and Worst That Could Happen?

Instructor Note: Display slide 4.

Purpose: The goal of this discussion is for learners to identify wise uses of credit and unwise uses of credit.

Time: 2 minutes

Materials: White board or chart paper, markers

Process:

1. Write the heading "Wise Uses of Credit" on the white board or chart paper.
2. Ask the group "What are some wise uses of credit?"
3. Write the group's ideas under the heading.

Examples:

- Planned purchases of assets—items that will grow or increase in value over time (e.g., home, education)
- Use to avoid carrying large amounts of cash—provided you pay off your balance each month, or make planned monthly payments
- Use to take advantage of sales or discounts when do not have immediate access to your cash
- Emergency expenses (e.g., major repairs of home or car)
- Paying for everyday living expenses—provided you pay off your balance each month

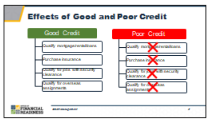
4. Write the heading "Unwise Uses of Credit" on the white board or chart paper.
5. Ask the group "What are some unwise uses of credit?"
6. Write the group's ideas under the heading.

Examples:

- Impulse buying—easy access to credit often leads to a "buy now, pay later" mentality
- Spending to feel good—spending as a temporary fix to feeling better can become addictive

- Spending for status—spending to impress others (advertising appeals to these emotions)
- Retaliatory spending—in a family setting where there is no clear spending plan on which partners can agree, each person may tend to spend on themselves first
- Paying for everyday living expenses—not paying off a credit card balance each month can make it difficult to pay down debt

[End activity]



Slide 5

Effects of Good and Poor Credit

Instructor Note: Display slide 5. This slide has animations. Click 1 time to reveal the Poor Credit text.

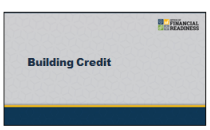
Say: Let's look at the effects credit can have on your financial health.

Good credit helps you:

- Qualify for a mortgage or rental lease and loans (e.g., car loan)
- Purchase insurance
- Qualify for certain jobs that require a security clearance
- Qualify for assignments overseas

Adverse effects of poor credit and poor credit management include:

- Inability to qualify for a mortgage or rental lease or loans
- Inability to get insurance or pay higher insurance rates
- Inability to qualify for certain jobs
- Loss of or inability to qualify for security clearances
- Failure to qualify for overseas assignments

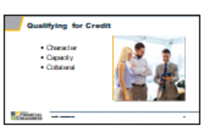


Slide 6

3. Building Credit

Instructor Note: Display slide 6.

Say: In this section we are going to look at how getting credit can help you build credit.



Slide 7

Qualifying for Credit

Instructor Note: Display slide 7.

Say: When deciding to extend credit to a consumer, creditors look for both the ability and willingness to repay debts.

The factors they use to evaluate a borrower can be summarized by the three C's of credit:

- Character
- Capacity
- Collateral

Character: Will you repay the debt?

- Creditors will look at your credit history: how much you owe, how often you borrow, whether you pay bills on time, and whether you live within your means.
- They will also look for signs of stability: how long you have lived at your present address, whether you own or rent your home, and the length of time at your present place of employment.
- The bottom line is that your credit score is your reputation.

Capacity: Can you repay the debt?

- Creditors ask for employment information: your occupation, how long you have worked at your present job, and how much you earn.
- They also want to know about your current expenses: how many dependents you have, whether you pay alimony or child support, and the amount of your other financial obligations.

Collateral: Is the creditor fully protected if you fail to repay?

- Creditors want to know:
  - Possessions you may have that could be used to back up or secure your loan.
  - Resources other than income that you have for repaying the debt:
    - Savings
    - Investments
    - Property
- Collateral is sometimes called "capital." Both terms refer to a borrower's assets that can be used to secure the loan.
- Creditors use combinations of these factors to reach a lending decision.

Different creditors may reach different conclusions based on the same set of factors. One may find a borrower an acceptable risk, while another may deny the same borrower.

Slide 8

Establishing Credit

Instructor Note: Display slide 8. This slide has animations. Click four times to reveal the text.

Say: Consumers should start building their creditworthiness early so that they will be able to get credit when they need it. As we just mentioned, lenders look for evidence of financial responsibility and stability when extending credit.

For someone who does not have a credit history, the first step is to properly maintain a checking and/or savings account and to pay existing bills (e.g., rent, utilities) on time.

There are options that can help a person establish a credit history. Let’s look at some options you may wish to consider.

Share-secured loan: In a share-secured loan, the amount of the loan is secured by money in your savings or share savings account.

- Credit unions and banks may grant a loan up to an amount of money in the account
- Money is frozen until a portion or entire loan is paid off
- interest rate is usually low; repayment is already guaranteed, even if borrower defaults on payments

The borrower is paying to borrow their own money, but the idea is to establish a credit history by making regular payments.

Co-signed loan: A co-signed loan is a good option for borrowers with little credit history, but they will need someone with an established credit history who is willing to co-sign for the loan.

- Co-signer guarantees loan’s repayment if other signer defaults
- Loan appears on both signers’ credit reports

Be cautious about co-signing a loan for a friend or a relative. As a co-signer, you are responsible for any missed payments. If repayment is mismanaged or goes into arrears, this could reflect poorly on your credit report and hurt your creditworthiness.

Retail cards: A retail charge card is offered by a retail store or similar lender and is often the easiest type of credit card to get but it typically has a high interest rate.

Tips for using this type of credit to build a credit history:

- Use one card to make small purchases
- Pay bill in full each month

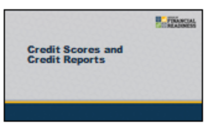
Major credit cards: After establishing a credit history, consumers can usually qualify for a major credit card from a bank or credit union.

- **Secured credit cards** often require a cash deposit, have low credit limits, high rates, and hidden fees or “membership” costs.
- **Premium cards** (often called gold or platinum) are targeted at consumers with the best credit ratings and will typically have lower rates and higher limits.

If you decide to apply for, or already have a major credit card you will want to ensure you understand the:

- Terms of the agreement [e.g., annual percentage rate (APR)]
- Associated fees (e.g., annual fee to have the card)
- Benefits (e.g., how cash back or other perks are awarded).

We will talk about credit terms and fees later in the session.



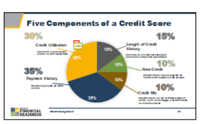
Slide 9

4. Credit Scores and Credit Reports

Preparation: Prior to the start of the session, print enough copies of the *Understand Your Credit Score* handout so each learner has a copy.

Instructor Note: Display slide 9. Distribute the handout.

Say: Now let’s look at what credit scores are, what they mean, and how you can use your credit report to ensure it contains accurate information and to improve your credit score.



Slide 10

Five Components of a Credit Score

Instructor Note: Display slide 10.

Say: Credit scoring is a system creditors use to help determine if they will extend credit to you and how much to charge for that credit. Your credit score is based on information about you and your credit experiences. This information can be found in your credit report.

The Fair Isaac Corporation (FICO) score is the most widely used credit-scoring model. Other credit-scoring models are VantageScore, TransRisk, and PLUS Score.

The FICO takes into account five areas of information and weighs each category:

- **Payment history:** 35 percent—do you pay on time every month?
- **Credit utilization:** 30 percent—how much you owe relative to your credit limits
- **Length of credit history:** 15 percent—how long an account has been open and how recently it has been utilized
- **New credit accounts:** 10 percent—how often do you seek new credit?
- **Credit mix:** 10 percent—credit mix (loans versus credit cards), types of loans (e.g., mortgage, student, vehicle), and types of credits cards (retail versus major)

Slide 11

Score Ranges

Instructor Note: Display slide 11.

Say: Credit scores vary depending on the product offered and on the range of scores the creditor is using.

A credit score is a subjective term because it really depends on how much credit you are applying for, from whom, and for what purpose. For example, a “healthy” credit score to buy a house may be different than a “healthy” score to get approved for a rental lease.

In general, the following is true for FICO scores:

- **800 to 850:** Exceptional credit—individuals in this range are offered the best credit rates.
- **740 to 799:** Very good credit—individuals in this range may or may not qualify for the very best interest rates and terms, depending on what they are applying for.
- **670 to 739:** Good credit—individuals in this range may still qualify for a loan but will pay more for credit than those in excellent or very good ranges.
- **580 to 669:** Fair credit—individuals in this range may find it difficult to get credit and will likely end up paying high interest rates.
- **300 to 579:** Poor credit—individuals in this range usually have some negative activity or adverse action on their report, such as foreclosures, liens, and/or credit judgments. Individuals in this category will probably have to pay the maximum interest rates

allowed by law, if given credit at all.

Slide 12

Credit Reports

Instructor Note: Display slide 12.

Say: A credit report is a detailed account of the credit, employment, and residence history of an individual.

Credit reports:

- Are used by a prospective lender to determine a person's creditworthiness.
- List any judgements, tax liens, bankruptcies, or similar matters of public record entered against an individual.

There are three main credit reporting agencies: Equifax, Experian, and TransUnion. These agencies maintain independent databases and compete with one another to sell information to lenders, insurance companies, and employers.

When obtaining a copy of your credit report be sure to request a copy from each agency since all three may not have the same information.

Slide 13

Annual Review

Instructor Note: Display slide 13. This slide has animations. Click twice to reveal the bullets.

Say: It is important to review your credit report at least once a year to verify that your information is correct and complete. Your report provides a holistic picture of your credit standing.

Free annual credit reports are available from Annual Credit Report website. (Source: www.ftc.gov/)

By federal law, every American with a credit history can get one free credit report each year from each of the big three credit reporting agencies.

If you are denied credit, insurance, or employment based on information in your credit report, you are entitled to receive a free report.

- Request report within 60-days of receiving denial notice
- Denial notices include: name, address, and phone number of credit reporting agency used to make the decision
- Contact reporting agency if you find mistakes in your report

Fair Credit Reporting Act (FCRA)

Both the credit reporting agency and the information provider (the person, company, or organization that provides information about you to an agency) are responsible for correcting inaccurate or incomplete information in your report.

To take advantage of your rights under FCRA, if you see inaccurate or incomplete information contact the credit reporting agency and the information provider.

Errors on Credit Report

Since errors in your credit report could prevent you from getting future credit, it is important to review your report and request that the reporting agency correct inaccurate information by filing a Credit Report Dispute.

Dispute forms are available on credit reporting agency websites, or you can request a hard copy from the agency.

When filing a dispute:

- Ask your legal office for help
- State what information you believe is inaccurate
- Include copies (not originals) of documents that support your position
- If sending dispute form and/or copies of documents in the mail, send via certified mail, return receipt requested as proof that the agency received the form and documents
- Keep copies of all documents including follow-up correspondence

The credit reporting agency must investigate the disputed items, usually within 30 days unless they consider your dispute frivolous. The agency also must forward all relevant information you provide about the inaccuracy to the organization that provided the information.

- If disputed information is inaccurate as claimed, organization must notify all three credit reporting agencies

- When investigation is complete, credit reporting agency must:
  - Correct information in your file
  - Provide you written results
  - Provide a free copy of your report, if the dispute results in a change this free report does not count toward your annual free credit report.

You can request that each credit reporting agency send a notice of correction to anyone who received your report in the past six months. If the requested report was for employment, the report will be sent to any employers who requested the report in the past two years.

If the investigation does not resolve your dispute, you can request that a statement about the dispute be included in your file and in future credit reports.

Slide 14

5. The Cost of Credit

Instructor Note: Display slide 14.

Say: In this section we'll talk about how much credit costs, how to shop for credit, how to avoid predatory lenders, and how to reduce your overall credit cost.

Credit is a privilege, and the cost of that privilege is the interest you pay on your debt. If you have good credit, you typically pay less in interest; but there are other ways to reduce the overall cost of credit.

Paying bills on time and maintaining a spotless credit record can:

- Improve your creditworthiness
- Lower overall cost of credit

Besides your personal creditworthiness, the cost of credit is determined by other factors:

- Where you borrow
- How much you borrow
- How long you take to repay
- How much you pay each month
- How interest is calculated

How much you borrow has a big influence on total cost. A down payment can often result in substantial savings. The larger the down payment, the less the total cost.

Borrowing for a longer period lowers the monthly payment but results in a higher cost. The shorter your repayment period, the less interest you pay, which reduces the total cost.

Slide 15

How Much Does Credit Cost?

Preparation: Familiarize yourself with the loan calculators on the FINRED website: finred.usalearning.gov/ToolsAndAddRes/Calculators/Loan

Instructor Note: Display slide 15. This slide has one hyperlink and animations. If you have an internet connection, click the link to show the FINRED website. Click three times to reveal the bullets.

Purpose: The goal of this demonstration is to show learners how to use a calculator to determine the cost of credit and how different loan terms (e.g., loan amount, interest rate) can affect the total interest and amount paid for the loan.

Time: 5 minutes

Process:

1. If you have an internet connection click the link on the slide and show learners where to access the loan calculators.
2. Select the Amortizing Loan Calculator link.
3. Explain the credit terms, fees, and interest rates listed below while you talk about and change values in the different fields in the calculator.
4. Show the effect that paying only the minimum monthly payment can have on the term of the loan and total amount of interest paid.

Instructor Note: If you do not have an internet connection explain the credit terms, fees, and interest rates listed below. The slide contains animations. Click three times to reveal three groups of bulleted text: Credit Terms, Credit Fees, and Types of Interest Rates.

Credit Terms

- **Annual Percentage Rate (APR):** APR is a measure of the cost of credit, expressed as a yearly rate. It must be disclosed before you obligate yourself to the debt and it must show on your account statements. A credit card issuer must disclose the “periodic rate,” the rate applied to your outstanding balance to calculate the finance charge for each billing period.

- **Variable rate**: Some credit card plans let the issuer change the APR when interest rates or other economic indicators change. These changes can raise or lower the finance charge on your account. The card issuer must tell you that the rate may change, how much it may change and how frequently, and how the rate is determined.

- **Grace period**: The grace period allows you to avoid finance charges by paying your balance in full before the due date. Without a grace period, a card issuer may impose a finance charge from the date you use your credit card or from the date each transaction is posted to your account.

- **Average daily balance:** If you do not have a grace period, this is the most common finance charge calculation method. This calculation uses the average of your balance during the billing cycle to calculate your finance charges for the month.

- **Minimum monthly payment:** The minimum dollar amount that must be paid each month on a loan, line of credit, or other debt without incurring a late fee. Generally, this relates to revolving debt, like credit cards.

  Each month, the minimum payment is based on the card's statement balance and calculated as either a flat percentage of the statement balance typically 2%, or a combination of flat percentage and interest. Since only a small portion of the minimum payment is applied to the principal balance every month, it can take card holders years or even decades to pay back their debt. Refer to the terms and conditions of your credit card to learn more about how your minimum balance is calculated.

- **Credit Card Accountability, Responsibility, and Disclosure (CARD) Act:** Under the CARD Act, your monthly credit card bill includes information on how long it would take to pay off your balance if you only made minimum payments. It will also tell you how much you would need to pay each month in order to pay off your balance in three years. Knowing this information may save you a great deal of money so read your bill each month.

Credit Fees

Some fees are charged for:

- Services (e.g., balance transfer, foreign transactions)
- Your actions (e.g., over-the-limit fees, late payment fees)

Some fees are simply tacked on as part of your account and include: activation, acceptance, participation, and monthly maintenance. Fees may appear monthly, periodically, or as one-time charges, and can have an immediate effect on your available credit.

Example: A credit card with a $250 limit and $50 in fees leaves you with $200 in available credit. By law, these fees cannot total more than 25 percent of the initial credit limit. (This limit does not apply to penalty fees, such as penalties for late payments.)

Some products may have high-priced add-ons such as credit life, credit disability, or credit unemployment insurance. You should be able to waive or opt-out of these add-ons.

Before you sign, read the fine print in a credit application or the contract for your credit product to understand the fees you will be charged. Your installation Legal Services Office is a great resource if you have questions and can review credit and loan contracts.

Fees Charged for Service

- **Annual fee :** An annual fee is charged for being a cardmember, usually to enjoy special features and perks (e.g., each frequent flier points).

- **Balance transfer fee:** Many credit card companies offer incentives for balance transfers; that is moving your debt from one credit card to another. Not all of these offers are the same and their terms can be complicated.

  Some companies:
  - Offer low introductory rates that rise significantly after end of introductory period.
  - Charge balance transfer fees. If the card you are transferring a balance to has a lower interest rate overall, the balance transfer may save you money in the long run.

Fees Charged for Consumer's Actions

- **Late / delinquency:** Some cards offer low rates for on-time payments but will apply a very high APR if you are late a certain number of times in a specified time period. In some cases, this could be one late payment. Information about delinquency rates should be disclosed in credit card applications and in solicitations that do not require an application.

- **Cash advance:** Cash advances allow you to draw cash from a preset cash limit on your account. Most cards charge a higher interest rate for cash advances, and the interest starts to accrue immediately.

- **Over-the-limit:** An over-limit fee is a penalty charged by credit card companies when cardholders' purchases exceed their credit limit.

- **Foreign transaction:** This fee is imposed by a credit card issuer on a transaction that place overseas or with a foreign merchant.

Loan Interest Calculations

Interest on loans can be calculated in different ways. To know what you are being charged, how interest is calculated, and steps you can take to minimize the impact in an increase in the interest rate, review the terms of your credit product (e.g., loan, credit card) before you sign a contact or application for credit.

There are two methods for lenders use to calculate the interest that you need to understand:

- **Simple:** The finance charge is computed by applying a percentage rate to the outstanding balance during each payment period. As you make payments, the interest charged decreases along with the loan balance due.

- **Add-on:** The finance charge is calculated on the amount financed and then added on to the amount financed at the beginning of the loan. The sum total has to be repaid. No matter how many payments you have made, or how quickly you repay the debt, the interest charged always stays the same. These types of fees are prohibited for loans more than 61 months.

  Example: $1,000 at 12 percent for one year. Using simple interest, you will pay $66 in interest. Using add-on interest, you will pay $120 in interest.

[End activity]

Slide 16

Shopping for Credit

Instructor Note: Display slide 16.

Say: Credit is a product for which you should shop, as you would for a car, computer, or large home appliance. Because the amount of interest that can be charged on different types of credit can vary considerably, it is important to compare offers carefully. Try to get preapproved for large items by arranging financing before you go shopping. This will give you a firm idea about what you can afford to pay and how much that credit will cost you.

Where you borrow will affect your cost.

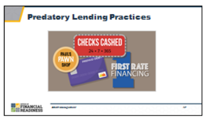
- **Credit unions:** Credit unions are nonprofit organizations owned by its members. They lend only to their members and normally offer some of the most attractive rates.

- **Commercial banks:** Banks are for-profit financial institutions that offer a wide variety of products. Banks typically lend to lower-risk applicants and rates are usually competitive.

- **Savings and loan associations:** These organizations are similar to banks, but they generally focus on mortgages or similar services.

- **Finance companies:** These companies normally deal with higher-risk applicants. Therefore, rates are higher than most of the other options mentioned.

- **Retail merchants:** Retail merchants can be an expensive place to finance any consumer purchase.
    - Rates are often relatively high because you are paying for the convenience of on-site financing.
    - This applies to both in-store loans and credit cards that have promotional introductory rates that rise rapidly after 90 to 180 days.



Slide 17

Predatory Lending Practices

Instructor Note: Display slide 17.

Say: Predatory lending is any lending practice that imposes unfair and abusive loan terms on borrowers, including high interest rates, high fees, and terms that strip the borrower of equity, while benefitting the lender. This is the most expensive money to borrow.

These lenders:

- Use aggressive sales tactics and deception to get borrowers to take out loans they cannot afford.
- Charge excessive interest rates and fees.
- May wrap in unnecessary insurance.
- Often have pre-payment penalties.
- Target vulnerable populations (those who struggle to meet monthly expenses, have recently lost their job, etc.)

Predatory lending includes:

- Advance-fee loans
- Payday loans
- Subprime mortgages
- Title loans
- Tax refund-anticipation loans
- Pawn shops
- Rent-to-own stores

Slide 18

Five Ways to Reduce Cost of Credit

Instructor Note: Display slide 18. The slide has animations. Click six times to reveal the bullets.

Purpose: The goal of this small group discussion is for learners to brainstorm five ways they can reduce the cost of credit.

Time: 3 minutes

Materials: White board or chart paper, markers (optional)

Process:

1. Divide the group into small groups of 3-4 people.
2. Ask the groups to brainstorm ways they can reduce the cost of credit.
3. Ask the groups to share one or more of their ideas. If time permits, write the ideas on the white board or chart paper.
4. Click five times reveal each bullet on the slide. Provide the information below about ways to reduce the cost of credit that were not mentioned during the discussion.

Examples:

- Pay bills on time and maintain a good credit record
- Get preapproved for large items—arrange for financing before you shop; this will help you get a firm idea about what you can afford and how much that credit will cost you.
- Pay more than the minimum monthly payment on credit cards
- Shop for credit and compare offers carefully. The interest that can be charged on different types of credit can vary considerably.
- Know the terms of your credit or loan agreement. Ask credit issuers:
    - Is there an annual fee? If so, how much? Can it be waived?
    - What is the interest rate on any balances? If there is a low introductory rate, how long is it in effect? What rate will be charged after the introductory period?
    - What is the grace period on purchases?
    - What are the terms for balance transfers and cash advances?
    - What additional fees apply, such as late payment, over the limit, and others?
    - Are there other hidden charges, such as an increase in the interest rate in the event of a late payment?
    - Are there other “services” tacked onto your account for which you will have to pay?
- Call the credit-card company and tell them you plan to switch to a card with a lower interest rate; ask what they can do for you. In many cases, they will lower your interest rate to keep you as a customer. This can be effective if you have been a customer with

an account in good standing for a year or more, have good credit, or carry a balance.

Servicemembers Civil Relief Act (SCRA)

The SCRA is a federal law that provides protections for Service members as they enter Active duty. One of the provisions provides credit rate reductions to 6 percent if a Service member's military obligation makes it difficult to pay on financial obligations such as credit cards, loans, mortgages, etc.

Qualifying debts are debts incurred by the Service member, or the Service member and their spouse jointly, before coming on Active duty. Debts entered into after going on Active duty are not protected by this provision of the law.

For information on rate reductions under the SCRA, contact your Legal Service Office.

Military Lending Act (MLA)

The Military Lending Act, or MLA, is a Federal law that provides certain protections in lending for active-duty Service members. The MLA limits the amount a creditor may charge on a wide range of credit products to 36% Military Annual Percentage Rate (MAPR). In addition to interest, the MAPR also includes fees, charges for debt cancellation and suspension, and costs of additional credit products such as credit insurance.

[End activity]

6. Recovering from Debt

Slide 19

Instructor Note: Display slide 19.

Say: In this section we are going to look at the warning signs of carrying too much debt and what individuals can do to take action to help them better manage their current debt load.

Credit Warning Signs

Slide 20

Instructor Note: Display slide 20.

Say: Warning signs that a person's finances have reached a critical stage and they need to take immediate action to better manage debt include:

- Making only the minimum payments on loans or credit cards—this may include rotating bills, so you are making only partial payments one month and the rest the next month, but never catching up.

- Dedicating most income to repay debt each month—or using credit to pay credit, such as seeking additional debt from predatory lending sources or getting cash advances to make payments.

- Falling behind on payments and receiving late notices. Symptoms of this include hiding bills from your partner or being dishonest with family members about your debts.

- You are:
    - At or near the credit limit on credit cards most of the time
    - Denied additional credit
    - Relying on debt-consolidation loans to reduce payments enough to meet monthly living expenses

If you find yourself in any of these situations it is time to take action and consider seeking financial counseling to help you develop a plan of action to reduce and manage debt.

Slide 21

Take Charge!

Instructor Note: Display slide 21. The slide has animations. Click once to reveal the text.

Purpose: The goal of this large group discussion is for learners to generate ideas on ways a person can better manage their current debt load.

Time: 3 minutes

Materials: White board or chart paper, markers (optional)

Process:

1. Ask the group “What are some ways a person can better manage their current debt load?”
2. If time permits, write the group’s ideas on the white board or chart paper.
3. Click once to reveal the text on the slide. Provide the examples below that were not mentioned during the discussion.

Examples:

- **Change your behavior:** Remember that overcoming debt is more about behavior than financial knowledge.

- **Prioritize debts:** Major items, such as your mortgage and car payment, should be a top priority.

- **Use a power payment plan:** Create a spending plan to get to positive cash flow (make sure minimum payments are made on all monthly bills) and apply all remaining available funds to whichever debt has the smallest balance. When the smallest balance is paid off, apply the money used for that payment to the second debt on your list; keep the payments on other debts the same. Again, when the second debt is paid off, apply all the money used for the payment to the next bill on your list and so on. In this manner, you will "power pay" down your debt.

- Seek help:
  - **Talk with your creditors.** Let them know why you are having difficulty making monthly payments. Be honest about what you can or cannot pay. Be prepared to offer them a plan for paying your debt, but do not promise more than you can deliver. Once a plan is agreed upon, be committed to keeping your part of the agreement.

  - **Financial counselors** can help you figure out what to change so that your behavior moves you in the direction of improving your financial health. Financial counselors have computerized budgeting programs that can help you develop a power payment plan that makes setting up a personal debt payment plan easy and flexible.

- Do your homework before you consider:
  - **Debt settlement companies** negotiate with your creditors on your behalf to get your debt reduced. Debt settlement occurs when the company or lender holding a delinquent account offers to settle the amount (i.e., they take less than the actual amount owed and charge off, or settle, the rest). This is rarely a viable option. It is better to talk with professional credit counselors.

  - **Bankruptcy** is often the last option for protection from bill collectors, lawsuits, and foreclosures. Bankruptcy does not allow you to walk away from financial problems and it may severely affect your ability to get credit in the future. It could also have a potential negative influence on your career.

    For Service members, bankruptcy can make it difficult to get and/or retain your security clearance. If your military position requires a security clearance, loss of your clearance (or the failure to obtain or retain it) could result in needing to change jobs and could affect your ability to reenlist.

[End activity]

Slide 22

7. Resources

Instructor Note: Display slide 22.

Say: Before we end this session, let's look at some of the resources available to you to help you find more information on how to better manage your credit.

Slide 23

Websites

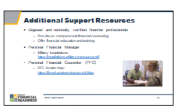
Preparation: Familiarize yourself with the resources available on the websites:

- FINRED—information about managing and monitoring credit
  finred.usalearning.gov/Money/ManagingCredit

- Consumer Financial Protection Bureau—information about credit cards
  www.consumerfinance.gov

- MilSpouse Money Mission—resources that are accessed from Money Ready and MilTools drop-down menus
  www.milspousemoneymission.org

Instructor Note: Display slide 23. The slide has hyperlinks and animations. Click two times to reveal the additional images and links. If you have an internet connection, click the links to show learners where they can find credit management resources on the websites.



Slide 24

Additional Support Resources

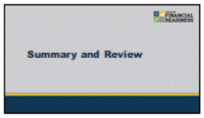
Instructor Note: Display slide 24. This slide has animations and two hyperlinks. Click two times to display the additional bullets. If you have an internet connection, click the links to show where on the web pages learners can locate personal financial professionals.

Say: If you would like assistance in determining your financial ability to buy a home or other financial topics, consider talking to a financial professional. There are two types of professions available to you at no cost: Personal Financial Manager (PFM) and Personal Financial Counselor (PFC).

These individuals have a degree and are nationally certified. They can provide you with personal financial counseling and financial education and training, like the session today.

- To find a **PFM** at your nearest installation visit the Military OneSource website.

- To find a **PFC** check out the PFC locator map on the Office of Financial Readiness website. These individuals are available 24/7, 365 days a year.



Slide 25

8. Conclusion

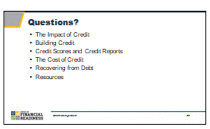
Summary and Review

Instructor Note: Display slide 25. At the beginning of the session if you asked learners to write down one thing they hoped to learn from attending the training today, ask them if they learned what they had hoped they would, and if not to share with the group what they wrote down. Provide a short answer or explanation to what learner's shared and invite them to make an appointment with a personal financial counselor to learn more.

Say: Credit is a regular part of our financial life. When managed correctly, credit, whether loans or credit cards, can be a great tool. When mismanaged they can lead to higher costs and credit denials.

Keep in mind these tips for using credit wisely:

- Have a working budget or spending plan, keep it up-to-date, and live within your means
- Plan all credit purchases; make sure they fit into your spending plan
- Shop around for credit
- Check your credit report annually and keep it spotless
- Use all available resources to help you manage your credit health



Slide 25

Final Questions

Instructor Note: Display slide 26.

Ask: Does anyone have any final questions about the topics we covered today?

- The Impact of Credit
- Building Credit
- Credit Scores and Credit Reports
- The Cost of Credit
- Recovering from Debt
- Resources

Thank everyone for participating in the discussions and sharing their ideas!