Wee-Savers Financial Literacy Curriculum

301: CASH VS. CREDIT

Introduction (1 minute)

I. This presentation will cover arguably, the two most important aspects of financial literacy. Cash and Credit. We will define both concepts and give you a solid foundation to properly use each.

a. How Credit Works (4 minutes)

I. Credit is an agreement you have with a lender to obtain goods or services that you pay for at a later date that is specified in the contract.

II. Credit comes in the form of loans and credit cards.

III. Loans sometimes require money upfront, but the rest of it is given to you and you have to prove good faith by paying it back in a timely manner. A credit card is almost the same way. When you use your credit card, the company loans you the money and you must pay it back.

- *For example:* When you open a credit card, you receive a limit. You can spend up to the specified limit. Each month, you should pay a portion of the money back because the credit card company is lending you up to the credit limit for you to make purchases.

- *Example:* When one gets a mortgage to buy a home, they should present a certain percentage down and the rest is given to them by the bank. During the term, they have to pay back the loan. When you pay back the loan, then you are proving good faith because the lender is receiving their money back.

- Has anyone asked to borrow money before? Did you have to pay it back? When you paid it back, you could borrow more money because the lender knew you would pay back it.

b. Credit Report Basics (15 minutes)

I. A credit report provides detailed information on how you have used credit in the past. This includes how much debt you have and if you have or have not paid your bills on time. This helps lenders know if they can trust you to pay them back.

- A credit report shows your good faith.

II. A credit report provides your personal information, accounts (open or closed), and recent inquiries.

- Your personal information is used to identify you.

- Your accounts are credit card accounts that you have open or closed, medical bills that have not been paid, bankruptcies, tax liens, and student loan debt.

- Inquiries can either be soft or hard inquiries and they show to see how many times you have applied for credit.

III. Soft vs. Hard inquiries:

- Soft inquiries are known as soft pulls. These occur when a company does a background check or when a credit card company checks your score to see if you are eligible for other credit offers.

- Soft inquiries do not affect your credit score. They may or may not show up on your report, it depends on the bureau.

- Hard inquiries occur when a lending institution or credit card company are trying to make a lending decision. These can stay on your credit report for up to two years. They can also negatively affect your credit report.

- Be mindful of the hard inquiries that you incur. Every time you apply for a credit card, car loan, or mortgage, these are hard inquiries and they can drop your score by a few points.

IV. Identifying the 3 credit bureaus:

- There are three credit bureaus: TransUnion, Equifax, and Experian.

- These are the three main bureaus that report on your credit report. Most times, individuals only see TransUnion and Equifax.

- The scores between all three may be different. It depends on what they report.

- Some companies prefer the numbers of one bureau over another. For example, a car dealership may look at your TransUnion score when deciding and another may use Equifax. It just depends.

V. The Fair Credit Reporting Act:

- This is the legal terms of what can and cannot go on your credit report.

- It is the U.S. Federal Government legislation enacted to promote the accuracy, fairness, and privacy of consumer information contained in the files of consumer reporting agencies.

- Did you know that 4 out of 5 credit reports have an error on them?

- If there is an error on your report, meaning the amount owed is wrong or the creditor is wrong, the credit bureaus must remove that item from your report.

- This is what the Fair Credit Reporting Act promotes.

VI. Who can view your credit report?

- YOU! Your credit report is important and can only be accessed by you unless you have given written permission to someone else to access it.

- Without your written permission, no one should be accessing your report.

- There are some instances when you do not have to give permission: when companies are making a pre-approval decision and when a court order is given.

VII. The importance of dispute letters:

- A dispute letter helps you fight to remove negative items that may be inaccurate.

- A dispute letter is encouraged to be sent certified to each bureau.

- It saves you time from being on the phone for a long period of time.

- Hand written or types dispute letters are more beneficial then disputing online. Disputing online can cause a negative reporting on your credit report.

c. Interest Rates and Terms (5 minutes)

I. Interest rates are based on your credit score.

- Your interest rates that you receive on credit cards and loans are determined by your credit score.

- The higher the score, the more confidence the lender has in you to pay the loan back.

- If you have a lower score, your interest rate may be higher because the lender wants to ensure they can collect as much of the loan as possible, just in case you stop paying.

II. Types of interest rates (auto, homes, and credit card)

- Interest rates differ between auto loans, home loans, and credit cards.

- Your credit score plays a huge factor in deciding of how much interest you pay.

- (Next slide): Show the diagram that compares the interest rates of all three based on credit score. You want them to start thinking about how important credit is.

III. Terms can be 3, 6, 12 months or beyond.

- A term is the amount of time given to payback the debt.

- A term can be one month even.

- When acquiring credit, make sure that the term is suitable enough for you to pay the amount off.

- You do not want to put more stress on you than you can handle.

d. Questions (5 minutes)