

CREDIT – WHAT IS IT ALL ABOUT?

BEFORE YOU GET STARTED

Recommended Ages: Grades 11-12

Estimated Time: 2 – 3 hours

Stuff you'll need: Phone or computer with internet access

Caregivers should consider: Girl Scouts may use a camera on a cell phone or tablet. Consider the risks of allowing your Girl Scout to utilize this device outdoors. The device may also have connectivity to the internet, which can also put her at risk. Parents/Guardians may choose to accompany their Girl Scout outdoors for safety precautions.

**BADGE OR JOURNEY
STEPS COMPLETED**

Ambassador Good Credit Steps 1, 2, 3, & 4

THE FUN PART

1. Step 1: Give me Some Credit!

- When you buy something on credit, you are essentially making a promise to pay for the item later. So why would a seller believe that you are good for the money in the future? It is all based on your credit score which represents a person's creditworthiness.
- Whether you choose to borrow money for the things you want to have, or choose to purchase those items when you have the full amount saved, it is important to understand what credit scores mean and how your choices and habits can negatively or positively affect your credit score.
- A credit score is like a grade on a report card, only it is a 3-digit number. A very good score is above 700 and if it is below 500 you will have a tough time getting loans and credit cards. Credit card companies and banks use this number to determine if you are a good risk (meaning, they are judging the likelihood of you paying them back).
- Credit scores relate to more than just credit

cards. If you are considering student loans, a car loan, or a mortgage (loan) for your house in the future, you will want to have a good credit score. Your score will follow you throughout your life.

- Do your own research on credit scores – the Consumer Financial Protection Bureau is a good place to start (consumerfinance.gov) Find out how you can build a good credit score and learn about financial habits that can help you keep your score up (i.e. pay your bills on time). You could also speak to a banker or financial planner on how to get you on the right foot. You can also check out [Building Good Credit](#) and [Credit Building Tips](#).

2. The Cost of Credit

- You want the newest cell phone, so you take out your credit card and buy the phone and walk out of the store. Wow that was easy! But wait, who exactly paid for that phone? The bank did. You borrowed the money from them and promised to pay it back.



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- Credit cards seem like an easy way to get what you want right now. All you do is insert the chip into the reader and you are all set. But do not fall into the trap of thinking that a credit limit (the amount of money the credit card company will allow you to spend) is free money that you can spend. Most experts advise not spending more than 30% of your credit limit allowance. As an example, if a bank gives you a credit card with a \$1,000 credit limit, you would be wise to keep your spending below \$300.
 - If you cannot pay the entire balance when the bill is due, you'll be paying interest on that credit until the balance is paid in full. For example, a \$500 purchase with an interest rate of 16% and monthly payments of \$20 would actually cost \$112.24 more than the original price tag and would take 31 months to pay off. Looking back, was that \$500 item really worth it?
 - Review the Key Credit Card Terms at the end of this activity plan to learn the lingo. Explore exactly how much an item would cost if you paid with credit card by using an online [credit card calculator](#).
 - Keep in mind that credit goes hand in hand with debt. It is one thing to have good credit and use it wisely. It is another thing to borrow more than you can handle and get into debt that you cannot afford.
- ▶ pay, typically need based
 - ▶ Scholarships: money you do not have to re-pay, typically merit based
 - ▶ Work-study programs: money earned by working at the college or university
 - ▶ Loans: borrowed money that needs to be paid back later, with interest
- If you take out loans to pay for college, it is important to understand the terms of the loans. You will need to know how much interest you will be paying on the loans, when you will be required to start repaying the loans and if there is a deferment option (a pause button on the loan for planned times when you may not be able to make payments) and whether a co-signer will be required for the loan (like your parents). Every dollar you borrow in student loans need to be repaid later, with interest, so it is important to only borrow what you need.
 - For this step, meet with an expert to learn the ins and outs of student loans. You can talk with a school guidance counselor, a financial aid officer at a college or a loan officer at the bank. Make a list of questions you want to ask about student loans and then take lots of notes!
 - Do more research online by checking out [Student Loans](#) and [Online Student Loan Calculator](#).

3. Paying for College

- College is expensive and common for students to use financial aid to pay for at least some of their college education. There are different types of financial aid and they include:
 - ▶ Grants: money you do not have to re-

4. Step 4: Credit Commitment

- What have you learned about credit in your research? What you have you learned about debt? Now it is time to connect the dots with some real life borrowing stories. Talk with friends and family (social distancing if



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needed) to learn from their mistakes and successes.

- Talking about money can be very personal, so remember to be sensitive as you ask question of your friends and family. Give them the space to share a general story about their credit history. An example of a general story is: “I borrowed the full amount that was offered to me for student loans, even though it was more than I needed. I am still paying off those loans. I could have worked a few more hours a week to save up and not borrow as much.” Or maybe a family member has a story about not paying their bills on time for a while and have had that reported to their credit bureau, affecting their credit scores. Maybe you know someone with a credit success story who has maintained a high credit score, ask them how they did it!
 - As you listen to these stories from friends and family, think about how you want to your financial life to be. Nobody dreams of a future filled with debt, but many people dream about the things that they want to have in their lives! Understanding what good credit means can help you set realistic goals for the future.
 - Write your credit commitment and then share it with your friends and family. Listen to their input and advice and make changes to it if needed. Once you have a final draft of your credit commitment, save it and refer to it when you need guidance in the years ahead.
5. **Way to go! You did it! Share on social media with your caregiver’s permission. Use the hashtag #GSGIDIY**

KEY CREDIT CARD TERMS

Interest: A charge for borrowing money, most often based on the percentage of the amount owed.

Fixed interest rate: When the interest you are charged on borrowed money remains consistent.

Variable interest rate: When the interest you are charged on borrowed money changes based on outside influences.

APR: Annual percentage rate. APR is the amount of interest a cardholder pays in a year in addition to the regular balance. It’s important to note that an APR can be fixed or variable.

Credit limit: The maximum amount of money you can borrow.

Grace period: The time between your purchase and the point where you start having to pay interest on the amount you borrowed.

Minimum payment: Credit cards require that you pay a minimum amount of money on what you owe each month. Remember though, you will be charged interest on the amount you don’t pay.

Annual fee: Many credit cards, particularly those that offer rewards like airline miles, charge an annual fee to use the card. This is important to pay attention to, as the fee can be more than any rewards you might be able to use.

