



Financial Literacy Education Student Handouts



Lesson 9: Credit Consequences

Warm-Up

Imagine two people apply for an apartment. One gets approved easily, while the other must pay a larger security deposit or gets denied. What do you think made the difference?

Learning Targets

I can:

- Explain how my credit score can affect me now and in the future.
- Identify ways to build and keep good credit.

Glossary

Amortization: The process of paying off a loan over time through regular payments, where each payment covers some interest and some of the principal.

Annual percentage rate (APR): A credit card's cost of borrowing expressed as a percentage, including interest and certain fees. It tells a borrower how much they will pay if they carry a balance on their card.

Auto title loans: Loans that use a car as collateral and risk vehicle repossession.

Banking deserts: Areas where people have little or no access to nearby banks or credit unions, making it harder to save money or get loans.

Credit access: An individual's ability to obtain credit, such as loans or credit cards, from financial institutions.

Credit recovery: The process of improving a credit score after it has been damaged by missed payments, high debt, or other financial setbacks.

Insurance premiums: Regular payments made to an insurance company to maintain coverage (e.g., health insurance, auto insurance).

Payday loans: Short-term loans with extremely high interest that often trap borrowers in cycles of debt.

Predatory lending: Lending that takes advantage of borrowers by offering loans with unfair, deceptive, or abusive terms.

Rent-to-own contract: An agreement where a person rents an item with the option to buy it later. Rent-to-own contracts can be predatory because they seem affordable upfront but often charge much more over time and let companies take back the item while keeping all the payments if the buyer falls behind.

Subprime: Describes loans or borrowers with lower credit scores, which usually leads to higher interest rates and fewer options.

Note Catcher

Main Ideas/Key Information

What are we discussing?

Notes

What did I learn?

Summary/Application

Why does it matter to me?

Credit Consequences Scenarios

Name:

Directions: Together with your group, read each scenario carefully and answer the questions that follow.

Scenario 1: First Credit Card Choices

Jordan just turned 18 and opens his first credit card with a \$500 limit. Jordan uses the card to buy clothes and concert tickets and quickly spends \$450. Jordan usually pays the minimum payment and sometimes forgets to pay until a week late.

- a. Which credit habits in this scenario could hurt Jordan's credit scores?

- b. What credit factors are being affected (payment history, credit utilization, etc.)?

- c. What changes could Jordan make to build good credit instead?

Scenario 2: On-Time Payments Pay Off

Aaliyah uses a credit card only for gas and pays the full balance every month before the due date. She keeps her balance under 30 percent of her credit limit and checks her statements regularly.

a. What positive credit behaviors is Aaliyah showing?

b. How will these habits likely affect her credit score?

c. Name two future financial opportunities that could be easier for Aaliyah because of strong credit.

Scenario 3: Apartment Application Trouble

Alex applies for his first apartment. The landlord runs a credit check and sees missed payments from a couple of years ago. Alex is approved, but only if he pays a much higher security deposit.

a. Why might missed payments from the past still matter?

b. How could this situation impact Alex’s finances over time?

c. What are two steps Alex could take to improve his credit going forward?

Scenario 4: Credit Mistakes and Recovery

Tanya had medical bills during a family emergency and missed several payments, damaging her credit score. She now pays all bills on time, pays down old balances, avoids applying for new credit and checks her credit report for errors.

a. What credit recovery steps is Tanya taking?

b. Why does credit recovery take time?

c. What does this scenario show about mistakes and future financial success?

Scenario 5: The “Easy Money” Offer

Chris has a low credit score and needs money fast. A lender offers a payday loan and says, “Your credit score doesn’t matter!” The loan has very high fees and must be repaid quickly.

a. Why might this loan be considered predatory?

b. Why is Chris a target for predatory lending?

c. How could this loan make things worse?

Personal Credit Action Plan

Name:

Directions: This worksheet is designed to help you create a personalized plan for building and maintaining good credit. Follow the steps below to complete each section thoughtfully.

My Credit Goals

Think about your future. What do you want your credit to help you achieve? Write down at least two short-term goals (within the next one to two years) and two long-term goals (three or more years from now).

Examples: "Get approved for a credit card," "Take out student loans," "Buy a car," and "Rent an apartment."

Short-Term Goals

Long-Term Goals

Strategies to Build Credit

List specific actions you will take to build and protect your credit.

Examples: "Pay bills on time," "Keep balances low," and "Check credit report."

Timeline for Key Milestones

Plan when you will take each action. Use ages, school years, or specific dates to map out your credit-building journey.

Examples: “Open a joint credit card at age 18” and “Check credit report every January.”

Reflection Questions

Answer each question in a few sentences.

- 1. Why is building good credit important to you?

- 2. What challenges might you face, and how will you overcome them?

- 3. How will you track your progress toward your credit goals?

Exit Ticket

One way low credit scores can affect me is:

One habit that can help me build or maintain good credit is:

One thing I plan to do in the future to use credit responsibly is:
