

Credit History and Equal Opportunity

Lesson Authors

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Standards and Benchmarks (see page 28)

Lesson Description

In this lesson, students first learn how credit history and credit scores are determined. Then, to better understand the protections of the Equal Credit Opportunities Act, they participate in a card-sorting activity where they evaluate creditworthiness based on borrower characteristics, determine which characteristics may be legally considered, and sort the applicants from most likely to least likely to get a loan. Next, they examine a primary source document to see how information that can be legally used to evaluate credit changed with the act. In an optional extension activity, students sort cards again to match primary borrowers with cosigners. They then learn about the pros and cons of cosigning.

Grade Level

9-12

Concepts

Cosign(er) (in optional Extension)

Credit

Credit bureau

Credit history

Credit report

Credit score

Creditworthiness

Objectives

Students will

- explain what credit is,
 - explain why credit is desired/wanted,
 - describe credit ratings/scores,
 - name the law that protects against credit discrimination and when it was passed,
 - connect credit history (the outcome of choices) and the ability to get credit,
 - identify legal and illegal reasons to deny credit,
 - predict when their credit score/history will be used in their lives, and
 - discuss the audience for and purpose of historical documents,
- and if the optional Extension is used,
- define cosigner and
 - give examples of good and bad reasons to cosign.

Essential Question

Who gets credit and why?

Time Required

45-60 minutes

Materials

- Visuals 1-3
- Handout 1, one copy for each student
- Handout 2 (game cards), cut apart and sorted into sets A through F
- Handout 3, one copy
- Handout 4, if you do *not* use the optional Extension, one copy of Page 1 for each student; if you *do* use the Extension, one copy of both Pages 1 and 2 for each student
- Handout 4—Answer Key

Procedure

1. Begin the lesson by discussing the following:
 - What's the first thing that comes to mind when you hear the word credit? Write answers on the board. (*Answers will vary but may include buy now and pay later, extra credit, a credit card, not having credit, or a credit report.*)
2. Tell the students that today they are going to learn about who gets financial credit and why.
3. Define **credit** as the granting of money or something of value in exchange for a promise of future repayment. Discuss the following:
 - How is credit different from a gift? (*Answers should include some variation of "You have to pay it back."*)
 - Why do people want credit? (*Answers will vary but should include to have things they want now and pay for them in the future, including big-ticket items, such as a house, car, or education, that they can't afford to pay for all at once.*)
 - How do companies decide whether someone will keep their promise to repay? (*Answers will vary but might include mention of a credit history or a credit score.*)
4. Tell the students that they're going to participate in an activity in which they assess **creditworthiness**.
5. Display *Visual 1: Your Credit History*. Explain that creditworthiness is the likelihood that someone will keep his or her promise to repay. Information about a person's creditworthiness is included in a **credit report**. Explain the following:
 - A person's payment activity over time with various businesses such as banks, utility companies, and lenders make up a person's **credit history**, which is documented in a credit report.
 - A specialty company called a **credit bureau** maintains credit reports. The three main credit bureaus are Equifax, Experian, and TransUnion.
 - Information from a credit report is used by credit bureaus to produce a **credit score**, sometimes known as a credit rating, which is a number that indicates a person's credit risk or creditworthiness. The range for scores is 300 to 850. A higher score indicates less risk and more creditworthiness.
 - Your credit report or credit score may be accessed by companies considering giving you a loan or a line of credit, employers considering hiring you, landlords considering renting to you, and other companies and individuals with a legitimate business need.
 - Although your income is not a part of your credit history, it is asked for on credit applications and is used to make credit decisions. Financial planners and credit advisors will also look at your income when giving advice about how to improve your creditworthiness.

- Credit bureaus evaluate creditworthiness using the 3 C's of credit: character, capacity, and collateral.
 - Married individuals are not automatically responsible for their spouse's accounts. If spouses have joint credit accounts, those accounts will appear on both spouses' credit reports.
6. Arrange the class into groups of five or six students. Explain that each group will serve as a credit advisory team and will evaluate people's creditworthiness.
7. Distribute a copy of *Handout 1: Credit Cheat Sheet* to each student. Distribute one set (with eight cards each) from *Handout 2: Borrower Cards* to each group. (NOTE: To facilitate discussion, there is some overlap between sets.) Explain the following:
- As members of a credit advisory team, your job is to evaluate the credit history of the individual on each Borrower Card and order the cards from most likely to least likely to get credit.
 - Cross out any information on a card that cannot be used to evaluate creditworthiness. Be prepared to explain why that information can't be used.
 - Use Handout 1 to assist in making your evaluations.
 - You will have 3 minutes to get your cards in order.
8. Allow 3 minutes for sorting and then discuss the following:
- What were some challenges your team had in making your evaluations? (*Answers will vary but may include knowing what information can and can't be used, staying on task, or ignoring the information you weren't supposed to use.*)
 - Whom did you select as being most likely to receive credit? (*Answers should include Adam, Fatima, Dee, and Patricia.*)
 - Why did you select these individuals? (*Answers will vary but should include the following: They paid their bills on time, have income to repay a loan, have assets, or have a good payment history.*)
- Optional:** Display each Borrower Card on the whiteboard and have students discuss their evaluation of each person.
- Did anyone find anything surprising in the information you could or could not use in your evaluations? (*Answers will vary but may include paying bills on time or the number of credit cards applied for.*)
 - Why do you suppose sex and marital status are information that can't be used against you in a credit application? (*Answers will vary.*)
 - Would you be surprised to know that all of the information on Handout 1 listed as information that can't be used against you has been used in the past to make credit decisions? (*Answers will vary; students may deny it or ask for specifics.*)

9. Explain to the students that factors used to evaluate credit have changed over time, and fairly recently. Congress passed laws in 1974 and 1976 (a decade or more after the Civil Rights Act) to prevent discrimination in lending on the basis of sex, marital status, race, religion, ethnicity, or national origin. These are together known as the Equal Credit Opportunity Act.
10. Display *Visual 2: Excerpts*. Instruct the students to individually read and compare the two excerpts. Allow a few minutes for the students to work and then discuss the following:
 - Which excerpt is easier for you to understand, and why? (*Answers will vary; the excerpts cover the same material, but the Federal Reserve handbook is written in simpler language.*)
11. Tell the students they will look at pages of a primary source document—a pamphlet—written shortly after the Equal Credit Opportunity Act was passed. (NOTE: The pamphlet is what’s known as a primary source document—usable for historical research—because it was created at the time the law was passed and is an artifact of the time period used to educate the public about how the new law protects their rights as consumers.)
12. Distribute one page from *Handout 3: Consumer Handbook* to each group. Display *Visual 3: Credit in History*. Explain that each group received one page from a handbook given to banking customers in 1979. Instruct the groups to read the pages provided, suggesting that one group member reads the page aloud, and then discuss within their groups the answers to the questions on Visual 3.
13. Allow time for the students to work and then invite each group to report the main topic of their page and share with the class their answers to the questions.

Visual 3: Credit in History—Answer Key

1. What surprises you about the rights of credit applicants? (*Answers will vary, but students may talk about how discrimination based on marital status or pregnancy was once allowed or how recently things have changed.*)
 2. What does your page of the handbook say about what is legal or illegal for a company to do when you apply for credit? (*Answers will vary but may include that it is illegal to discriminate based on race, while it is legal to consider income when considering a loan application.*)
14. Discuss the following:
 - Who produced the handbook? (*The Board of Governors of the Federal Reserve System*)
 - Who is the likely target audience for the handbook? (*Answers will vary but should be some version of “credit customers,” “consumers,” or “the general public.”*)

15. Explain that the Federal Reserve, as one of the institutions created by U.S. law to oversee banks (among other duties), created the handbook and other materials like it to help educate consumers about the laws in the Equal Credit Opportunity Act that dictate how banks must treat their customers. The laws are written as directives to the banks, and this handbook interprets the law for consumers regarding their rights when applying for credit. Even though laws are written to protect consumers, consumers may not have the expertise to decipher them.

(Optional) Extension: Credit and Cosigning

16. Tell the students that it is time for them to switch hats. Now that they have worked as a credit bureau team member and know more history of credit evaluation, they will now work (in their same groups) for a company issuing auto loans—Major Auto Finance. The company has decided to try a new strategy for loans to help dealerships sell as many cars as possible. Explain the following:
- You will grant loans to pairs of people.
 - Review the Borrower Cards again.
 - Choose four pairs of people to receive loans. That is, each pair will receive one loan.
 - Choose pairs to balance out negatives in one person’s credit history with positives in another person’s credit history.
17. Allow 5 minutes for the students to work and then invite each group to share one pair chosen and why.
18. Discuss the following:
- Might real credit companies allow what you just did—let someone else “backup” another person’s promise to repay a loan? (*Answers will vary, and students may not know.*)
19. Explain that although credit companies don’t randomly match people in this way, it is legal and relatively common practice to allow “backup” for a loan, which is known as cosigning. A **cosigner** is a person with a longer credit history or a better credit score who agrees to be a second signer on a loan or credit arrangement for a loan sought by a person with a short credit history or low credit score. A cosigner essentially tells the bank or credit company that they will be responsible for payments if the primary borrower can’t or won’t pay.
20. Discuss the following:
- What are some pros and cons of cosigning? Write them on the board. (*Answers will vary, but may include getting a loan or credit you couldn’t get on your own, having someone help you build your credit [pros for the primary borrower], or being responsible for someone else’s debt [con for the cosigner].*)

21. Explain that having a relative or friend cosign for a loan or credit can help people get credit that they couldn't get by themselves. Having a cosigner helps the primary borrower build a credit history. Being responsible about payments and spending (in the case of credit cards) is important because these behaviors are reported in a credit report. Signing on as a cosigner means you are promising to repay the loan if the primary borrower does not. Know what you are signing up for before signing anything.

Closure

22. Discuss the following to review the main content of the lesson:
- What is credit? (*The granting of money or something of value in exchange for a promise of future repayment.*)
 - Why do people want credit? (*Credit allows people to have things they want now and pay for them in the future, including big-ticket items, such as a house, car, or education, that they can't afford to pay for all at once.*)
 - How do banks and other credit-granting companies decide who gets credit? (*Answers will vary but should include credit reports or credit scores and may jump to specifics such as paying bills on time.*)
 - What makes up your credit report? (*Information about you including your personal data, credit accounts, payment history, and public records.*)
 - The Equal Credit Opportunity Act of the 1970s made it illegal to refuse credit based on which characteristics? (*Sex, marital status, race, religion, ethnicity, national origin, receipt of government assistance, or whether the applicant has made a legal complaint about credit discrimination.*)

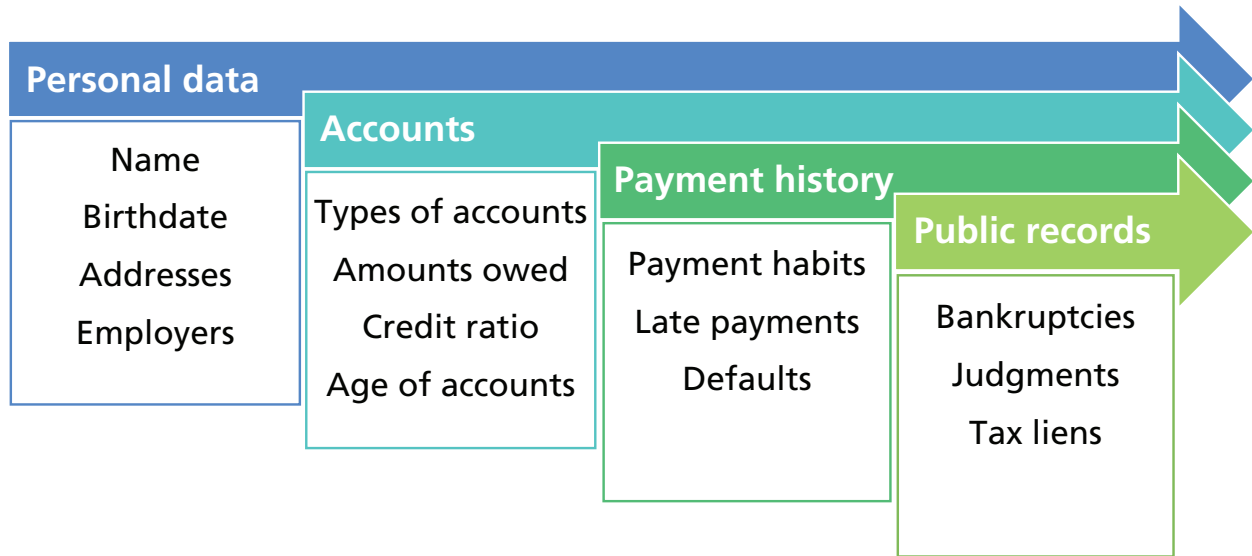
If you used the optional Extension, also discuss the following:

- What does it mean to cosign for a loan? (*You promise to pay if the other person does not.*)
- What are potentially good and bad outcomes of cosigning? (*Answers will vary but may include the following: A good outcome is that the primary borrower gets a loan that would be otherwise unattainable; a bad outcome is that the primary borrower fails to pay and the cosigner is stuck with the debt.*)

Assessment

23. Distribute a copy of *Handout 4: Assessment* to each student, **including page 2 of the handout only if you used the extension**. Allow time for students to work.

Visual 1: Your Credit History



Visual 2: Excerpts

Equal Credit Opportunity Act Amendments of 1976 (excerpt)

§ 701. Prohibited discrimination; reasons for adverse action

“(a) It shall be unlawful for any creditor to discriminate against any applicant, with respect to any aspect of a credit transaction—

“(1) on the basis of race, color, religion, national origin, sex or marital status, or age (provided the applicant has the capacity to contract);

“(2) because all or part of the applicant’s income derives from any public assistance program; or

“(3) because the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

SOURCE: Public Law 94-239, 94th Congress, H.R. 6516. Equal Credit Opportunity Act Amendments of 1976, March 23, 1976, 90 Stat 251; <https://fraser.stlouisfed.org/title/1039>.

Consumer Handbook to Credit Protection Laws (excerpt)

The Equal Credit Opportunity Act does not guarantee that you will get credit. You must still pass the creditor’s tests of creditworthiness. But the creditor must apply these tests fairly, impartially, and without discrimination against you on any of the following grounds: age, sex, marital status, race, color, religion, national origin, because you are on welfare or Social Security, or because you exercise your rights under Federal credit laws.

SOURCE: Board of Governors of the Federal Reserve System. “Consumer Handbook to Credit Protection Laws.” December 1978, p. 15; https://fraser.stlouisfed.org/scribd/?item_id=501067&filepath=/files/docs/historical/ny%20circulars/nycirc_1979_08496a.pdf.

Handout 1: Credit Cheat Sheet (page 1 of 2)

What's in a credit report?

- Personal data: Name, birth date, Social Security number, past and current addresses, phone numbers, and employers
- Credit accounts: Revolving credit accounts (such as a credit card) and installment loans (such as a car loan), including creditor names, account numbers, and amounts owed
- Recent credit inquiries: Who has recently viewed the credit report
- Payment history: When bills were paid, including if any were late, how late they were, or if any are delinquent
- Public records: Court judgments, bankruptcies, and tax liens

What information can a bank or other credit-granting institution use to decide whether to give you credit?

- Your tendency to pay bills on time
- The length of time you've had utility, credit, or bank accounts
- How much credit you already have and how much you currently owe
- How recently you've applied for other credit accounts and for how much
- Any collections, judgments, or bankruptcies against you
- Your income and assets

What information cannot be used against you in a credit application?

- Your sex or marital status
- Your religion
- Your ethnicity, race, or national origin
- Whether you receive government assistance, including housing vouchers or food supplements
- Whether you've ever made a legal complaint about credit discrimination

Who can legally access your credit report?

- Lenders if you're applying for credit or have an account with them
- Phone and utility companies when you apply for service
- Your employer or potential employer (if you agree to let them)
- Insurance companies
- Government agencies assessing your finances for government benefits
- Landlords and rental companies
- Banks when you apply to open an account
- Anyone else with a legitimate business need

Handout 1: Credit Cheat Sheet (page 1 of 2)

How to Build (or Damage) Your Credit

Build Credit	Damage Credit
Pay your bills.	Don't pay your bills or pay less than the minimum amount due.
Pay your bills on time.	Pay late or miss payments.
Keep your credit balance low or zero.	Carry a high balance or max out your credit cards.
Keep accounts for a long time.	Open lots of new accounts or open and close accounts frequently.
Open accounts only when you need them.	Open accounts all the time.
Have different kinds of well-maintained accounts.	Only use one kind of credit (e.g., an auto loan, credit card, or mortgage).

Glossary

- **Credit:** The granting of money or something else of value in exchange for a promise of future repayment.
- **Credit history:** A person's payment activity over a period of time.
- **Credit report:** A loan and bill payment history kept by a credit bureau and used by financial institutions and other potential creditors to determine the likelihood that a future debt will be repaid.
- **Credit score:** A number based on information in a credit report, which indicates a person's credit risk.
- **Cosigner:** A person, usually a relative or friend with a good credit score, who guarantees repayment of a loan. If the primary borrower defaults, the cosigner is responsible for repaying the debt. Having a cosigner can be a way for individuals with a poor or limited credit history to obtain credit.

Handout 2: Borrower Cards (page 1 of 6)

<p style="text-align: center;">Adam</p> <ul style="list-style-type: none"> • Income over \$100,000 a year • Just bought a new house • Amazing fashion sense • Has one credit card with a low balance <p style="text-align: right;">A</p>	<p style="text-align: center;">Bianca</p> <ul style="list-style-type: none"> • Regularly volunteers at the animal shelter • Often pays bills late • Income under \$30,000 a year • Went bankrupt five years ago <p style="text-align: right;">A</p>
<p style="text-align: center;">Chris</p> <ul style="list-style-type: none"> • 20 years into 30-year mortgage on house • Applied for 10 credit cards in the past year • Has a large stock portfolio (assets) • Talented soccer player <p style="text-align: right;">A</p>	<p style="text-align: center;">Dee</p> <ul style="list-style-type: none"> • Rents an inexpensive apartment • Always pays bills on time • Calls grandma every Sunday • Income under \$30,000 a year <p style="text-align: right;">A</p>
<p style="text-align: center;">Elijah</p> <ul style="list-style-type: none"> • Just bought a new house • Has a large stock portfolio (assets) • Owes \$50,000 in student loans • Regularly volunteers at the animal shelter <p style="text-align: right;">A</p>	<p style="text-align: center;">Fatima</p> <ul style="list-style-type: none"> • Income over \$100,000 a year • Talented soccer player • 20 years into 30-year mortgage on house • Rents a luxury vacation home <p style="text-align: right;">A</p>
<p style="text-align: center;">Greg</p> <ul style="list-style-type: none"> • College student with a part-time job • Has one credit card with a low balance • Usually pays bills on time • Always uses reusable grocery bags <p style="text-align: right;">A</p>	<p style="text-align: center;">Manuel</p> <ul style="list-style-type: none"> • College student with a part-time job • Always pays bills on time • Applied for 10 credit cards in the past year • Regularly volunteers at the animal shelter <p style="text-align: right;">A</p>

Handout 2: Borrower Cards (page 2 of 6)

<p style="text-align: center;">Chris</p> <ul style="list-style-type: none"> • 20 years into 30-year mortgage on house • Applied for 10 credit cards in the past year • Has a large stock portfolio (assets) • Talented soccer player <p style="text-align: right;">B</p>	<p style="text-align: center;">Dee</p> <ul style="list-style-type: none"> • Rents an inexpensive apartment • Always pays bills on time • Calls grandma every Sunday • Income under \$30,000 a year <p style="text-align: right;">B</p>
<p style="text-align: center;">Omar</p> <ul style="list-style-type: none"> • Rents an inexpensive apartment • Applied for 10 credit cards in the past year • Income of \$50,000 a year • Always uses reusable grocery bags <p style="text-align: right;">B</p>	<p style="text-align: center;">Patricia</p> <ul style="list-style-type: none"> • 20 years into 30-year mortgage on house • Always pays bills on time • Has a large stock portfolio (assets) • Calls grandma every Sunday <p style="text-align: right;">B</p>
<p style="text-align: center;">Greg</p> <ul style="list-style-type: none"> • College student with a part-time job • Has one credit card with a low balance • Usually pays bills on time • Always uses reusable grocery bags <p style="text-align: right;">B</p>	<p style="text-align: center;">Helen</p> <ul style="list-style-type: none"> • Amazing fashion sense • Income under \$30,000 a year • Went bankrupt five years ago • Usually pays bills on time <p style="text-align: right;">B</p>
<p style="text-align: center;">Isaac</p> <ul style="list-style-type: none"> • Just bought a new house • Always pays bills on time • Owes \$50,000 in student loans • Always uses reusable grocery bags <p style="text-align: right;">B</p>	<p style="text-align: center;">Nina</p> <ul style="list-style-type: none"> • College student with a part-time job • Has one credit card with a low balance • Usually pays bills on time • Calls grandma every Sunday <p style="text-align: right;">B</p>

Handout 2: Borrower Cards (page 3 of 6)

<p style="text-align: center;">Elijah</p> <ul style="list-style-type: none"> • Just bought a new house • Has a large stock portfolio (assets) • Owes \$50,000 in student loans • Regularly volunteers at the animal shelter <p style="text-align: right;">C</p>	<p style="text-align: center;">Fatima</p> <ul style="list-style-type: none"> • Income over \$100,000 a year • Talented soccer player • 20 years into 30-year mortgage on house • Rents a luxury vacation home <p style="text-align: right;">C</p>
<p style="text-align: center;">Greg</p> <ul style="list-style-type: none"> • College student with a part-time job • Has one credit card with a low balance • Usually pays bills on time • Always uses reusable grocery bags <p style="text-align: right;">C</p>	<p style="text-align: center;">Helen</p> <ul style="list-style-type: none"> • Amazing fashion sense • Income under \$30,000 a year • Went bankrupt five years ago • Usually pays bills on time <p style="text-align: right;">C</p>
<p style="text-align: center;">Isaac</p> <ul style="list-style-type: none"> • Just bought a new house • Always pays bills on time • Owes \$50,000 in student loans • Always uses reusable grocery bags <p style="text-align: right;">C</p>	<p style="text-align: center;">Juanita</p> <ul style="list-style-type: none"> • Owes \$50,000 in student loans • Rents a luxury apartment • Income of \$50,000 a year • Always uses reusable grocery bags <p style="text-align: right;">C</p>
<p style="text-align: center;">Kevin</p> <ul style="list-style-type: none"> • Income over \$100,000 a year • Rents an inexpensive apartment • Went bankrupt five years ago • Talented soccer player <p style="text-align: right;">C</p>	<p style="text-align: center;">Louis</p> <ul style="list-style-type: none"> • Income of \$50,000 a year • Rents a luxury apartment • Often pays bills late • Amazing fashion sense <p style="text-align: right;">C</p>

Handout 2: Borrower Cards (page 4 of 6)

<p style="text-align: center;">Elijah</p> <ul style="list-style-type: none"> • Just bought a new house • Has a large stock portfolio (assets) • Owes \$50,000 in student loans • Regularly volunteers at the animal shelter <p style="text-align: right;">D</p>	<p style="text-align: center;">Helen</p> <ul style="list-style-type: none"> • Amazing fashion sense • Income under \$30,000 a year • Went bankrupt five years ago • Usually pays bills on time <p style="text-align: right;">D</p>
<p style="text-align: center;">Adam</p> <ul style="list-style-type: none"> • Income over \$100,000 a year • Just bought a new house • Amazing fashion sense • Has one credit card with a low balance <p style="text-align: right;">D</p>	<p style="text-align: center;">Juanita</p> <ul style="list-style-type: none"> • Owes \$50,000 in student loans • Rents a luxury apartment • Income of \$50,000 a year • Always uses reusable grocery bags <p style="text-align: right;">D</p>
<p style="text-align: center;">Kevin</p> <ul style="list-style-type: none"> • Income over \$100,000 a year • Rents an inexpensive apartment • Went bankrupt five years ago • Talented soccer player <p style="text-align: right;">D</p>	<p style="text-align: center;">Louis</p> <ul style="list-style-type: none"> • Income of \$50,000 a year • Rents a luxury apartment • Often pays bills late • Amazing fashion sense <p style="text-align: right;">D</p>
<p style="text-align: center;">Manuel</p> <ul style="list-style-type: none"> • College student with a part-time job • Always pays bills on time • Applied for 10 credit cards in the past year • Regularly volunteers at the animal shelter <p style="text-align: right;">D</p>	<p style="text-align: center;">Nina</p> <ul style="list-style-type: none"> • College student with a part-time job • Has one credit card with a low balance • Usually pays bills on time • Calls grandma every Sunday <p style="text-align: right;">D</p>

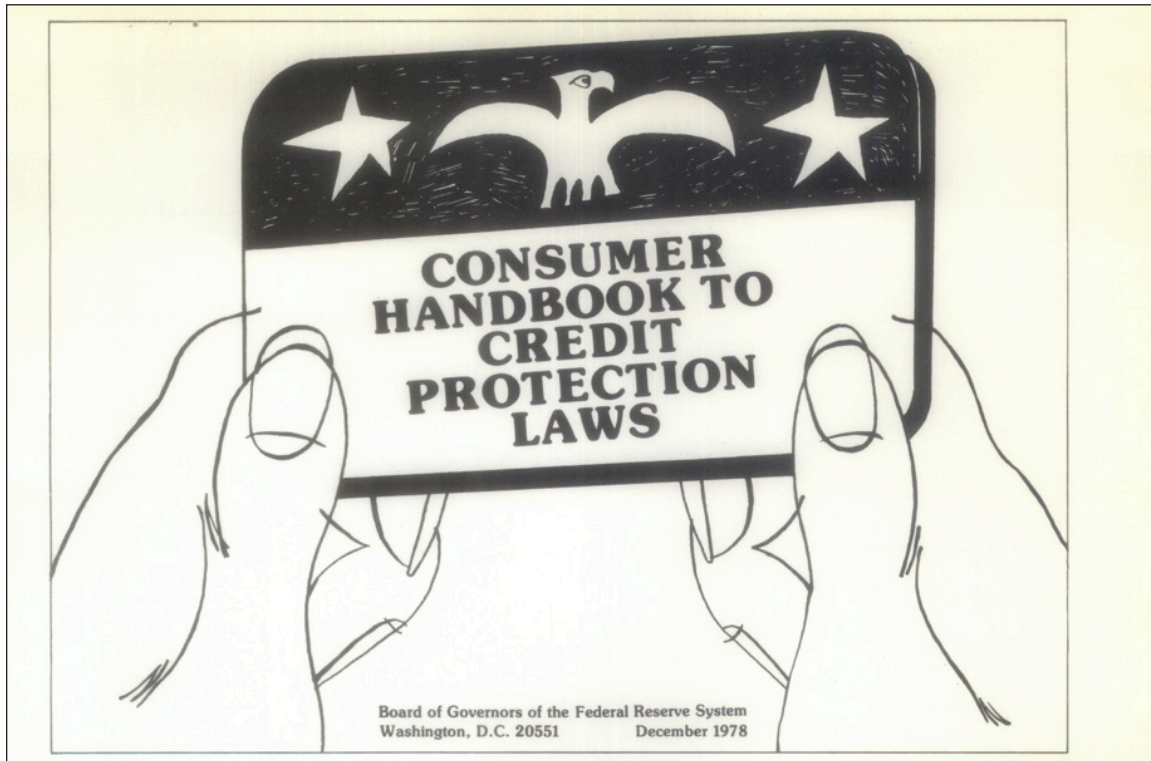
Handout 2: Borrower Cards (page 5 of 6)

<p style="text-align: center;">Isaac</p> <ul style="list-style-type: none"> • Just bought a new house • Always pays bills on time • Owes \$50,000 in student loans • Always uses reusable grocery bags <p style="text-align: right;">E</p>	<p style="text-align: center;">Juanita</p> <ul style="list-style-type: none"> • Owes \$50,000 in student loans • Rents a luxury apartment • Income of \$50,000 a year • Always uses reusable grocery bags <p style="text-align: right;">E</p>
<p style="text-align: center;">Kevin</p> <ul style="list-style-type: none"> • Income over \$100,000 a year • Rents an inexpensive apartment • Went bankrupt five years ago • Talented soccer player <p style="text-align: right;">E</p>	<p style="text-align: center;">Louis</p> <ul style="list-style-type: none"> • Income of \$50,000 a year • Rents a luxury apartment • Often pays bills late • Amazing fashion sense <p style="text-align: right;">E</p>
<p style="text-align: center;">Manuel</p> <ul style="list-style-type: none"> • College student with a part-time job • Always pays bills on time • Applied for 10 credit cards in the past year • Regularly volunteers at the animal shelter <p style="text-align: right;">E</p>	<p style="text-align: center;">Nina</p> <ul style="list-style-type: none"> • College student with a part-time job • Has one credit card with a low balance • Usually pays bills on time • Calls grandma every Sunday <p style="text-align: right;">E</p>
<p style="text-align: center;">Omar</p> <ul style="list-style-type: none"> • Rents an inexpensive apartment • Applied for 10 credit cards in the past year • Income of \$50,000 a year • Always uses reusable grocery bags <p style="text-align: right;">E</p>	<p style="text-align: center;">Patricia</p> <ul style="list-style-type: none"> • 20 years into 30-year mortgage on house • Always pays bills on time • Has a large stock portfolio (assets) • Calls grandma every Sunday <p style="text-align: right;">E</p>


Handout 2: Borrower Cards (page 6 of 6)

<p style="text-align: center;">Adam</p> <ul style="list-style-type: none"> • Income over \$100,000 a year • Just bought a new house • Amazing fashion sense • Has one credit card with a low balance <p style="text-align: right;">F</p>	<p style="text-align: center;">Bianca</p> <ul style="list-style-type: none"> • Regularly volunteers at the animal shelter • Often pays bills late • Income under \$30,000 a year • Went bankrupt five years ago <p style="text-align: right;">F</p>
<p style="text-align: center;">Omar</p> <ul style="list-style-type: none"> • Rents an inexpensive apartment • Applied for 10 credit cards in the past year • Income of \$50,000 a year • Always uses reusable grocery bags <p style="text-align: right;">F</p>	<p style="text-align: center;">Patricia</p> <ul style="list-style-type: none"> • 20 years into 30-year mortgage on house • Always pays bills on time • Has a large stock portfolio (assets) • Calls grandma every Sunday <p style="text-align: right;">F</p>
<p style="text-align: center;">Isaac</p> <ul style="list-style-type: none"> • Just bought a new house • Always pays bills on time • Owes \$50,000 in student loans • Always uses reusable grocery bags <p style="text-align: right;">F</p>	<p style="text-align: center;">Juanita</p> <ul style="list-style-type: none"> • Owes \$50,000 in student loans • Rents a luxury apartment • Income of \$50,000 a year • Always uses reusable grocery bags <p style="text-align: right;">F</p>
<p style="text-align: center;">Chris</p> <ul style="list-style-type: none"> • 20 years into 30-year mortgage on house • Applied for 10 credit cards in the past year • Has a large stock portfolio (assets) • Talented soccer player <p style="text-align: right;">F</p>	<p style="text-align: center;">Dee</p> <ul style="list-style-type: none"> • Rents an inexpensive apartment • Always pays bills on time • Calls grandma every Sunday • Income under \$30,000 a year <p style="text-align: right;">F</p>

Handout 3: Consumer Handbook (page 1 of 6)



APPLYING FOR CREDIT



The Old Story of Discrimination

Here's the old story: Mary and John Jones, whose joint income is more than enough to make payments on their dream house, are turned down for a mortgage loan. The lender says Mary might become pregnant and leave her job. That's illegal now. It's illegal even to discourage the Joneses from applying for a loan just because Mary is of child-bearing age. And Mary's income must be counted fully by a lender.

When you're ready to apply for credit, you should know what creditors think is important in deciding whether you're creditworthy. You should also know what they cannot legally consider in their decisions.

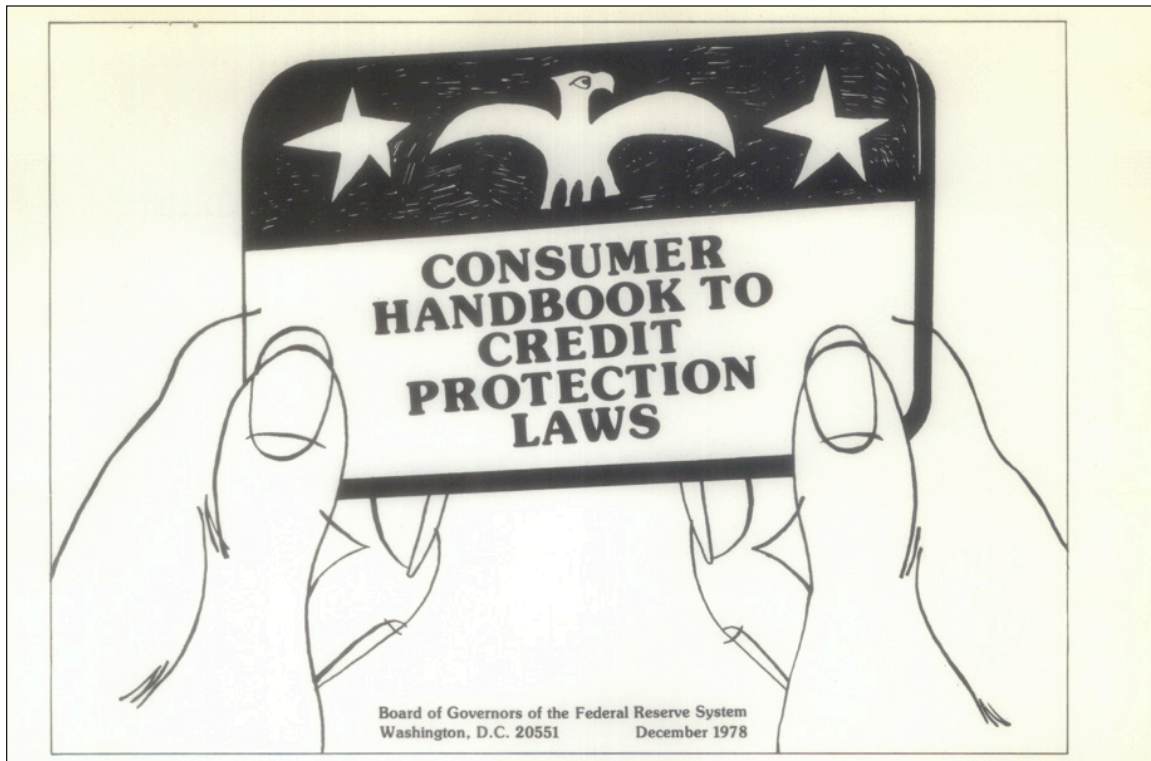
The law makes sure the creditor will be fair:

THE EQUAL CREDIT OPPORTUNITY ACT starts all credit applicants off on the same footing. It says that race, color, age, sex, marital status — and certain other factors — may not be used to discriminate against you in any part of a credit dealing.

What Law Applies?

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Both men and women are protected from discrimination based on sex or marital status. But many of the law's provisions were designed to stop particular abuses that generally made it difficult for women to get credit. For example, the notion that single women ignore their debts when they marry, or that a woman's income "doesn't count" because she'll leave work to have children, now is unlawful in credit transactions.

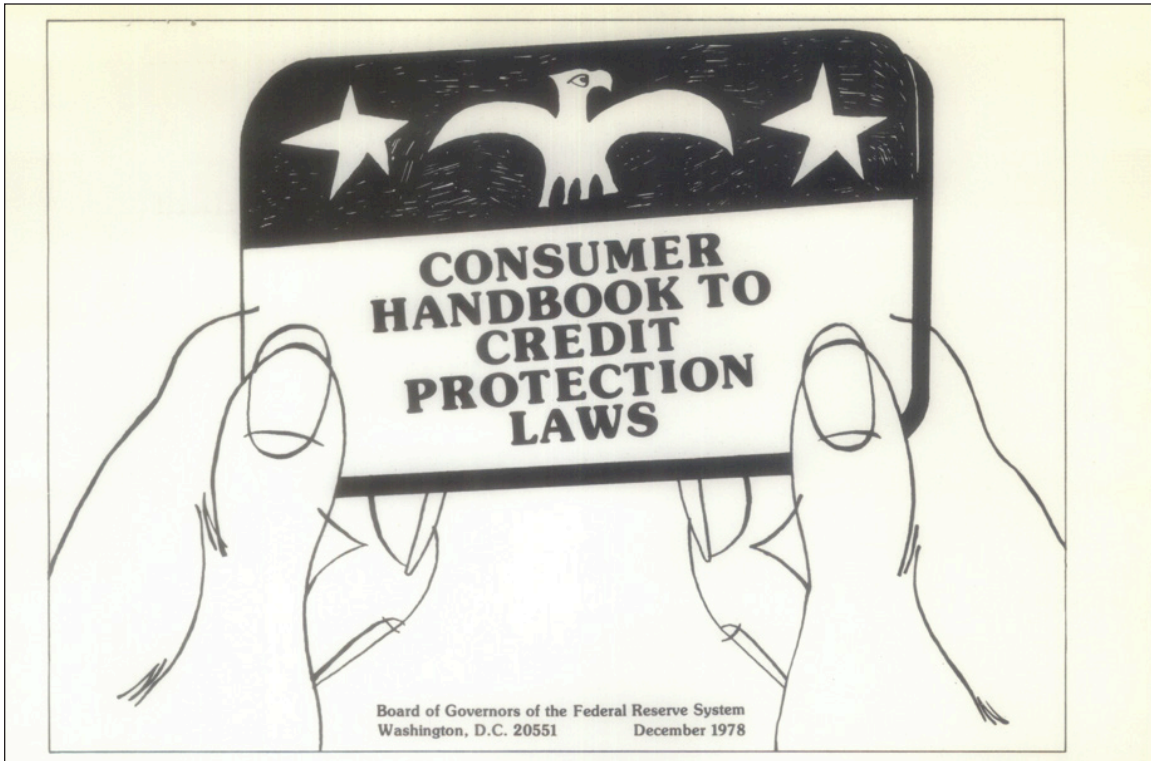
**Discrimination
Against Women**

The general rule is that **you may not be denied credit just because you are a woman, or just because you are married, single, widowed, divorced, or separated.** Here are some important protections:

Sex and Marital Status Generally, creditors may not ask your sex on an application form (one exception is on a loan to buy or build a home).

You do not have to use Miss, Mrs., or Ms. with your name on a credit application. But, in some cases, a creditor may ask whether you are married, unmarried, or separated (unmarried includes single, divorced, and widowed).

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Child-bearing Plans Creditors may not ask about your birth control practices or whether you plan to have children, and they may not assume anything about those plans.

Income and Alimony The creditor must count all of your income, even income from part-time employment. Child support and alimony payments are a primary source of income for many women. You don't have to disclose these kinds of income, but if you do creditors must count them.

Telephones Creditors may not consider whether you have a telephone listing in your name because this would discriminate against most married women. (You may be asked if there's a telephone in your home.)

A creditor **may** consider whether income is steady and reliable, so be prepared to show that you can count on uninterrupted alimony payments or part-time wages. If you're pregnant when you apply for a loan, bring some proof that you'll be paid during maternity leave or that your job will be open for you when you return. (Before you go to apply, ask the creditor what proof is acceptable.)

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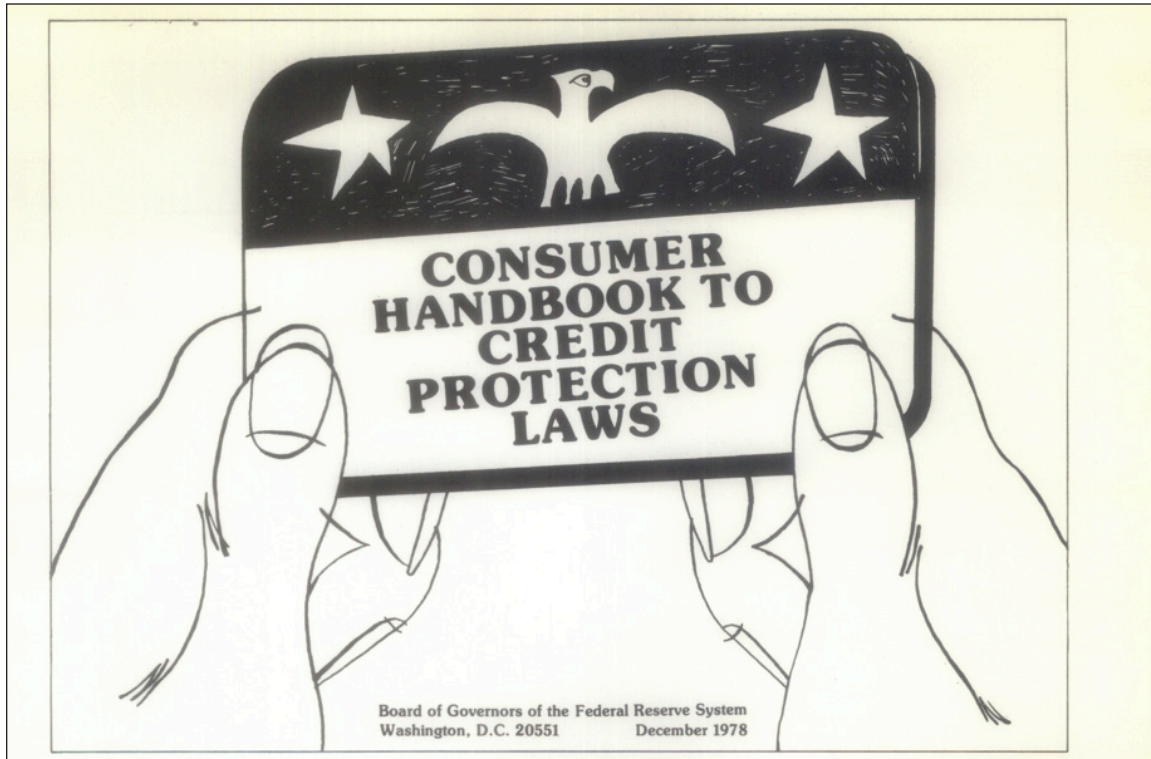


Your own accounts. Many married women used to be turned down when they asked for credit in their own name. Or, a husband had to co-sign an account — agree to pay if the wife didn't — even when a woman's own income could easily repay the loan. Single women were refused loans because they were judged somehow less "reliable" than other applicants. You now have a right to your own credit, based on your own credit records and earnings. Your own credit means a separate account or loan in your own name — not a joint account with your husband or a duplicate card on his account. Here are the rules:

- Creditors may not refuse to open an account just because of your sex or marital status.
- You can choose to use your first name and maiden name (Mary Smith); your first name and husband's last name (Mary Jones); or a combined last name (Mary Smith-Jones).
- If you're creditworthy, a creditor may not require your husband to co-sign your account, with exceptions in "community property States," where husbands and wives are equally responsible for each other's debts.
- Creditors may not ask for information about your husband or ex-husband when you apply for your own credit based on your own income — unless that income is alimony, child support, or separate maintenance payments from your spouse.

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Remember, your sex or race may not be used to discourage you from applying for a loan. And creditors may not delay your application on those grounds. Under the Equal Credit Opportunity Act, you must be notified within 30 days after your application has been completed whether your loan has been approved or not. If credit is denied, this notice must be in writing and it must explain the specific reasons for denying credit or tell you of your right to request an explanation. You have the same rights if an account you have had is closed.

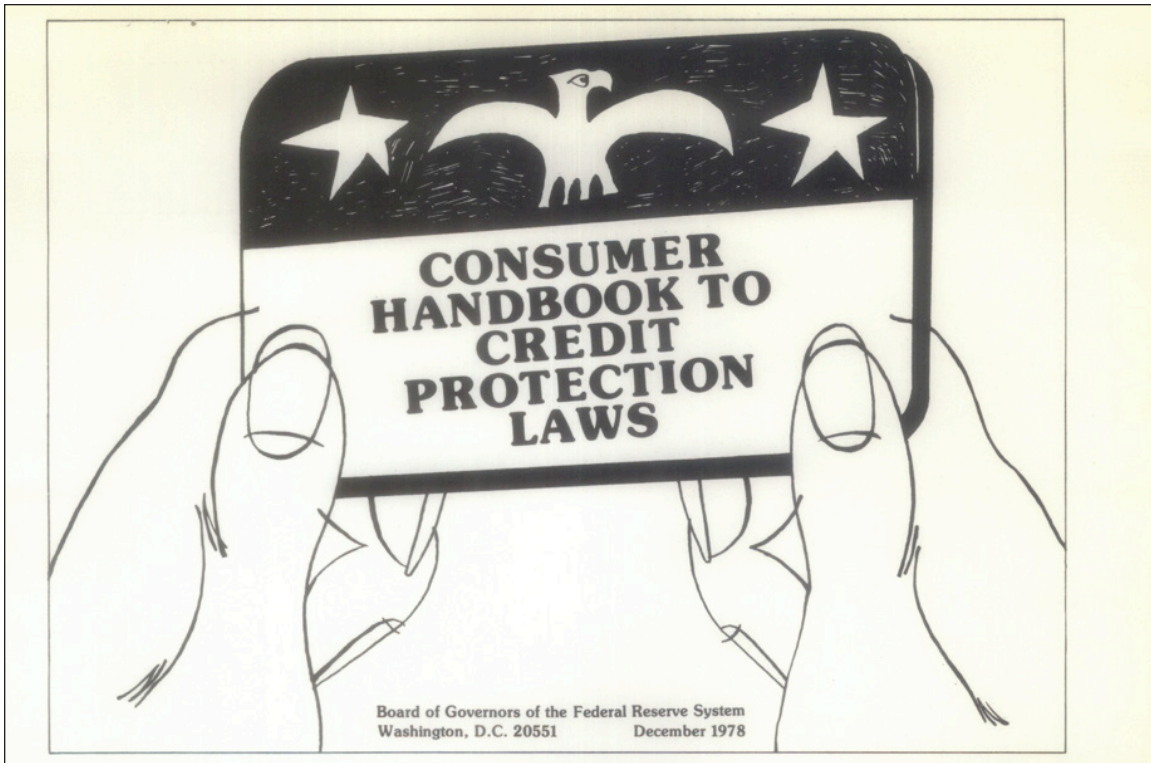
If you are denied credit, be sure to find out why. Remember, you may have to ask the creditor for this explanation. It may be that the creditor thinks you have requested more money than you can repay on your income. It may be that you have not been employed or lived in the community long enough. You can discuss terms with the creditor and ways to improve your creditworthiness. The next chapter explains how to improve your ability to get credit.

If you think you have been discriminated against, cite the law to the lender. If the lender still says no without a satisfactory explanation, you may contact a Federal enforcement agency for assistance or bring legal action as described in the last chapter of this handbook.

If You're Turned Down

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Credit Histories for Women

Women who are divorced or widowed might not have separate credit histories because all past credit accounts were listed in their husbands' names. But they can benefit from this record. Under the Equal Credit Opportunity Act, creditors must consider the credit history of any account women have held jointly with their husbands. Creditors must also look at the record of any account held only in the husband's name if a woman can show it also reflects her own creditworthiness. If the record is unfavorable — if an ex-husband was a bad credit risk — she can try to show that the record does **not** reflect her own reputation.

Here's an example:

Mary Jones, when married to John Jones, always paid their credit-card bills on time and from her own checking account. But the card was issued in John's name, and the credit bureau kept all records in John's name. Now Mary is a widow and wants to take out a new card, but she's told she has no credit history. To benefit from the good credit record already on the books in John's name, Mary should point out that she handled all accounts properly when she was married and that bills were paid by checks from her own account.

Married women probably won't have Mary's problem in the future. Under the Equal Credit Opportunity Act, reports to credit bureaus must now be made in the

Handout 4: Assessment (page 2 of 2)

6. How can having a cosigner help build your credit?

7. How can being a cosigner hurt your credit?

Handout 4: Assessment—Answer Key

- Which of the following is not a legitimate reason for your credit report to be accessed:
 - A landlord is trying to decide whether to rent an apartment to you.
 - You are applying for a new cell phone contract.
 - The company you applied for a job with is trying to decide whether to hire you.
 - Someone you asked out is trying to decide whether to date you.**
- Which of the following can a bank use to legally deny you a loan?
 - Your race, payment history, and income
 - Your payment history, income, and recent inquiries into your credit**
 - Your race, gender, and religion
 - Credit inquiries into your credit, your religion, and where you live
- What are three things you can do to establish good credit?

Answers will vary. For possible answers, see the “Build Credit” section under “How to Build (or Damage) Your Credit” on Handout 1.
- What are three things you can do to harm your credit score?

Answers will vary but may include bankruptcy. For other possible answers, see the “Damage Credit” section under “How to Build (or Damage) Your Credit” on Handout 1.
- Why did the Federal Reserve make the “Consumer Handbook to Credit Protection Laws”?

Answers will vary but may include to help the public understand their legal rights granted under the Equal Opportunity Credit Act, to inform people about their credit options, or to make sure banks are following the law.
- How can having a cosigner help build your credit?

Answers will vary but should express that if you have no or bad credit, having a cosigner can help you get access to credit you wouldn’t otherwise have and help you build your credit history.
- How can being a cosigner hurt your credit?

Answers will vary but should explain that a primary borrower who doesn’t make full or timely payments on the cosigned credit account will damage both the primary borrower’s and the cosigner’s credit scores.

Standards and Benchmarks

National Standards for Financial Literacy

Standard IV: Using Credit

Credit allows people to purchase goods and services that they can use today and pay for those goods and services in the future with interest. People choose among different credit options that have different costs. Lenders approve or deny applications for loans based on an evaluation of the borrower's past credit history and expected ability to pay in the future. Higher-risk borrowers are charged higher interest rates; lower-risk borrowers are charged lower interest rates.

- Benchmark 12.5: Lenders make credit decisions based in part on consumer payment history. Credit bureaus record borrowers' credit and payment histories and provide that information to lenders in credit reports.

Benchmark 12.6: Lenders can pay to receive a borrower's credit score from a credit bureau. A credit score is a number based on information in a credit report and assesses a person's credit risk.

Benchmark 12.12: Consumers who use credit should be aware of laws that are in place to protect them. These include requirements to provide full disclosure of credit terms such as APR and fees, as well as protection against discrimination and abusive marketing or collection practices.

C3 Framework for Social Studies Standards

Historical Sources and Evidence

- Benchmark D2.His.9.9-12: Analyze the relationship between historical sources and the secondary interpretations made from them.
- Benchmark D2.His.11.9-12: Critique the usefulness of historical sources for a specific historical inquiry based on their maker, date, place of origin, intended audience, and purpose.