

“When You Turn 18: Preparing Students for Financial Success” Academy
(High School)
Credit Case Studies

What is Credit?

Credit is the ability to borrow money or access goods and services with the promise to pay for them later. Good credit shows lenders and businesses that you are reliable in paying back borrowed money, while bad credit can make it harder to borrow. Credit history plays a key role in financial decisions, such as renting an apartment or buying a car, as it shows your past borrowing behavior and payment reliability.

Case Study:

Alex is 18 and has just moved out of her parent's house. She is looking to rent an apartment. Alex has never had a credit card or loan, so she doesn't have a credit history. When she applies for the apartment, the landlord asks for a credit check. Alex is unsure what that means and wonders if it will affect her ability to get a lease.



Credit Scores and Credit Reports

A credit score is a numerical rating that shows how reliable you are with borrowing money, based on factors like payment history, credit usage, and length of credit history. Credit reports detail your borrowing activity, including accounts, payments, and debts. Checking your credit report regularly can help you identify mistakes or fraud that may affect your credit score.

Case Study:



Jordan has been using a credit card for a few months and has been making timely payments. One day, he checks his credit score and notices it's lower than he expected. Jordan has no idea why the score is low because he's been paying his bills on time.

Types of Credit

Credit comes in different forms, each suited for specific needs. Credit cards allow you to make purchases up to a limit and require at least a minimum payment each month. Loans provide a lump sum of money that you repay in fixed installments with interest. Credit cards offer flexibility for ongoing purchases but usually have higher interest rates, while loans are better for larger, one-time expenses.

Case Study:



Morgan has just been approved for two different types of credit: a credit card with a \$500 limit and a small personal loan for \$2,000. She is wondering which one is better for her financial goals. Morgan is considering using the loan to pay for a new laptop or using the credit card for purchases.

How to Build and Maintain Good Credit

Building good credit involves responsible use of credit over time. One key factor is credit utilization, which measures how much of your available credit you use. Keeping this below 30% can help maintain a strong credit score. Timely payments are equally important, as missed payments can harm your credit. Regularly reviewing your credit report can also help you track progress and spot errors.

Case Study:



Casey recently started a part-time job and received her first credit card with a \$300 limit. She wants to use the card to help build her credit, but she isn't sure how. She's heard that she should avoid carrying a balance, but Casey isn't sure how much of the card's limit she should use to improve her credit score.

Understanding Interest Rates and Fees

Interest rates and fees can significantly impact the cost of borrowing money. The Annual Percentage Rate (APR) reflects how much interest you'll pay annually. For credit cards, interest is charged on any unpaid balance after the payment due date. Credit cards and loans may also have additional fees, such as for late payments or exceeding credit limits. Understanding these terms is essential to manage debt effectively.

Case Study:



James opened a credit card with a 20% APR and didn't realize that he would be charged interest on any balance carried past the due date. After making a few purchases, James is unable to pay the full balance and starts carrying over a balance each month. After a few months, James notices that the interest charges are adding up.

Credit Card Terms and Conditions

Credit card agreements often include terms like promotional interest rates, annual fees, and late payment penalties. For example, a card may offer 0% APR for an introductory period before switching to a higher rate. Understanding these terms can prevent unexpected costs and help you choose the best card for your needs.

Case Study:



Riley received a credit card offer with an attractive 0% APR for the first 6 months. She is tempted to use it to buy a new phone, but Riley is unsure what will happen after the 6 months. She doesn't fully understand the terms and conditions and is worried about hidden fees.

Borrowing and Repayment Agreements

When you borrow money, you agree to repay it on a set schedule, including monthly payments and interest. Missing payments can lead to fees, damaged credit, or even legal action. Refinancing or adjusting the terms of a loan may be options if you're struggling to keep up, but it's important to understand how these changes might affect the overall cost of the loan.

Case Study:



Quinn took out a \$5,000 loan to pay for tuition. She agreed to repay the loan over 3 years with monthly payments. A year into the loan, Quinn loses her job and struggles to make payments. She is considering refinancing or asking for an extension.

Debt Management and Consolidation

Debt consolidation combines multiple debts into a single loan with one monthly payment. This can simplify managing debt and may lower interest rates, but it could also extend the repayment period, increasing the total cost. It's important to review the terms and ensure the new loan will save money and improve your financial situation.

Case Study:



Bobby has three credit cards and a student loan. He is finding it hard to keep track of all the due dates and minimum payments. He is thinking about consolidating his credit card debt into one loan to make it easier to manage. Bobby is unsure of whether consolidating is a good idea.