Sharing credit

Students will use a graphic organizer to apply prior knowledge about credit cards as they analyze a scenario on sharing credit and loan accounts.

Learning goals

Big idea
It’s helpful to examine the pros and cons before signing up for any financial account.

Essential questions
- What are the benefits and risks of establishing a joint financial account?
- What rules apply to both parties when opening a joint credit account?

Objectives
- Apply prior knowledge to analyze real-world scenarios
- Identify benefits and risks of having a joint credit account

What students will do
- Apply prior knowledge as they examine real-world scenarios about joint credit accounts.
- Use the graphic organizer to capture their thinking about joint credit accounts.
- Write down other group members’ analyses in the graphic organizer.
- Come to consensus as a group.

STANDARDS
Council for Economic Education
Standard IV. Using credit

Jump$tart Coalition
Credit and debt - Standards 1 and 2
Preparing for this activity

- Print copies of all student materials, or prepare for students to access them electronically.
- Print one copy of the joint credit scenarios (included in the teacher guide) and cut the scenarios into strips.
- Reserve or secure a computer or tablet with Internet access for each student or group of students. If that’s not possible, you can do the research yourself and print out a few handouts with definitions for students to use.
- Obtain sticky notes for capturing student responses to the scenarios.

What you’ll need

**THIS TEACHER GUIDE**
- Sharing credit (guide)
  cfpb_building_block_activities_sharing_credit_guide.pdf

**STUDENT MATERIALS**
- Sharing credit (worksheet)
  cfpb_building_block_activities_sharing_credit_worksheet.pdf
- Optional: All about credit scores (handout)
  bcfp_building_block_activities_all-about-credit-scores_handout.pdf
- Optional: Credit scores: An infographic (handout)
  bcfp_building_block_activities_credit-scores-infographic_handout.pdf
- Computers or tablets with Internet access; sticky notes

Exploring key financial concepts

Not everyone qualifies for credit on their own. If a lender believes you can’t make the minimum required payments on the account, you may need someone to co-sign your account or you may need to be added as an authorized user on someone’s credit card account. This is especially true for young people who do not have a credit history.

When you open a joint credit card, both account holders have equal access to the account and are equally responsible for

**TIP**

Because financial products, terms, and laws change, students should be encouraged to always look for the most up-to-date information.
making payments, no matter who made the transaction. For co-signed loans, the co-signer has the same responsibility for the payments as the primary borrower but may not have the privileges that come with the loan. For example, in the case of a car loan or a student loan, usually only the primary borrower receives the car or the money from the loan. For a joint account or co-signed loan, the account appears on the credit reports of both people. If a payment is late or goes unpaid, both account holders are marked as delinquent. Thus, it’s important to consider all the benefits and risks before applying for joint credit or co-signing a loan for someone.

Teaching this activity

Whole-class introduction

- Organize students into groups of four.
- Be sure students understand key vocabulary:
  - **Co-signer**: An individual who signs a loan, credit account, or promissory note of another person as support for the credit of the primary signer and who becomes responsible for the debt obligation.
  - **Credit score**: Credit scores are numbers created by mathematical formulas that use key pieces of your credit history to calculate your score at a moment in time.
  - **Credit**: Borrowing money, or having the right to borrow money, to buy something. Usually it means you’re using a credit card, but it might also mean that you got a loan.
  - **Credit card**: An open-ended loan that allows you to borrow money up to a certain limit and carry over an unpaid balance from month to month. There is no fixed time to repay the loan as long as you make the minimum payment due each month.
  - **Creditworthy**: Financially sound enough to justify the extension of credit.
  - **Loan**: Money that has to be repaid by the borrower, usually with interest.
  - **Secured credit card**: Credit card that typically requires a cash security deposit. The larger the security deposit, the higher the credit limit. Secured cards are often used to build credit history.
- Distribute one “Sharing credit” worksheet to each group.
• Optional: You may also choose to distribute either the “All about credit scores” handout or the “Credit scores: An infographic” handout to give students more background information on how credit usage may affect credit scores.

• Ask groups to write each member’s name in one section of the graphic organizer. This is where they’ll put their sticky note containing their analysis.

• Tell students they’ll work together to explore the benefits and risks of joint credit accounts.

Individual and group work

• Display a copy of the graphic organizer (in the worksheet) and explain that each of the outer squares represents a different group member’s analysis (four sections for four group members).
  • Students will work both individually and collaboratively to complete the graphic organizer.

• Give each group a joint credit scenario strip and enough sticky notes for each group member to have a few sheets.

• Tell groups they have 5-10 minutes to read the scenario, explore the suggested website(s), and work independently to write their response on one or more sticky notes.

• Ask students to organize their sticky note responses in their designated sections of the graphic organizer.

• Allow groups a few minutes to discuss members’ responses, noticing similarities and differences among them.

• Have students identify what is most important about what they’ve captured.

• Give student groups about 5-10 minutes to arrive at a consensus statement and write it in the center of their graphic organizer.

Wrap-up

• Ask each group to share their scenario and their consensus statement.

• Allow other students to ask questions about each scenario.

Suggested next steps

Consider searching for other activities that address the topic of borrowing, including getting loans and managing credit.
Measuring student learning

The answer guide provides possible student responses for the graphic organizer in the “Sharing credit” worksheet. You can use these possible answers as guidance to extend discussion and student comprehension.

Keep in mind that students’ answers may vary, as there may not be only one right answer. The important thing is for students to have reasonable justification for their answers.

Answer guide

Scenario 1

Joe and his son Cory have had a joint credit card since Cory was in college. Cory graduated 10 years ago and lives more than 1,000 miles away from his dad. Joe thinks it might be time to close this account. What are the benefits and risks of this decision, and what should Joe do if he wants to make this happen?

Possible responses:

- If Joe no longer wants to be responsible for the joint account, he can contact his credit card company to learn about his options.
- If Joe closes the account, each of the joint account holders will be responsible to repay any remaining balance at that time.
- If they close the account, Joe will no longer be liable for any purchases Cory makes on this card.
- Closing the card could lower their credit scores because (1) this card was a long-standing account, and (2) it may increase their credit utilization rate.

Scenario 2

Carys is trying to buy some new clothes with her credit card, but her purchase is declined because she has reached the limit on her card. She and her husband share that credit card. How will this situation likely affect Carys’s husband?

Possible responses:

- Carys’s husband also won’t be able to use their card until they pay down some of the balance.
- Joint credit cards affect both account holders’ credit scores. Using too much of their available credit – a high credit utilization rate – can lower their credit scores.
Scenario 3

Dante is afraid he won’t be able to get a credit card because he’s always lived with his parents and hasn’t had any bills in his own name. His options to establish credit include 1) getting a joint credit card with a parent; 2) becoming an authorized user on his parents’ credit card; or 3) trying to get a secured credit card on his own.

What are the benefits and risks of those options?

Possible responses:

- In the case of a joint credit card:
  - Dante’s parent will be able to see all of his purchases on that card.
  - Both Dante and his parents will be legally responsible for paying for all purchases Dante makes.
  - Removing a joint account holder is difficult, if not impossible. It may be necessary to close the account when Dante or his parents no longer want to share finances.
  - If either Dante or his parents have excessive credit card charges or miss payments on the card, it could hurt the other’s credit score, too.

- If Dante is added as authorized user on his parents’ card:
  - Dante’s parent will be able to see all of his purchases on that card.
  - Although Dante can make purchases, only his parents will be legally responsible for those purchases.
  - His parents can remove him as an authorized user on the account at any time.
  - If either Dante or his parents have excessive credit card charges or miss payments on the card, it could hurt the other’s credit score, too.

- In the case of a secured credit card:
  - Generally, Dante can build credit with a secured card, but he should be sure to ask his card issuer about reporting to the credit reporting agencies.
  - Many of these cards include a “graduation” component, so you can move from a secured card to a traditional credit card seamlessly after establishing a pattern of consistent payments.
  - Secured cards can come with a number of different fees, though, so before Dante chooses a secured card, he should consider applying to see if he can be approved for a regular credit card that may have fewer or lower fees.
Scenario 4

Angel and Esperanza are newly married, and they get a lot of mail from credit card companies. They currently have separate credit accounts and have never thought about opening a joint account. But now they wonder if they should get a joint credit card instead of keeping their separate accounts. **What are the advantages and disadvantages of getting a joint credit card account?**

*Possible responses:*

- If Angel and Esperanza open a joint account, both people can make purchases on the account.
- Both account holders are equally responsible for making payments on the account, regardless of who made the transaction.
- Joint accounts are listed on both account holders’ credit reports, which can be good or bad depending on how they manage the account.
- If one person has a better credit score than the other, opening a joint account may mean they get a lower interest rate than on their own.
- If Angel and Esperanza get a joint account, and close the other individual accounts, they would only have one credit card payment to make instead of payments on their separate accounts.

Scenario 5

Sophia needs more money for college. She has already borrowed the maximum amount of available federal loans, which don’t require a co-signer, but her college costs exceed the maximum federal loan amount. She is considering private student loans, which typically require a co-signer. Her mom is willing to co-sign a loan. **What are the benefits and risks of having her mom co-sign a loan?**

*Possible responses:*

- As co-signer, Sophia’s mom is equally obligated to repay the loan.
- As the co-signer, Sophia’s mom’s credit can be harmed if Sophia (the borrower) is late making payments.
Scenario 6

Brickale is a service member who’s heading overseas soon. He and his wife, Jill, have separate credit cards. Brickale likely won’t use his credit card while on his tour of duty, and he is considering closing the account and transferring the balance to his wife’s credit card to protect his credit. **Would this arrangement be good for Brickale and his wife? Why or why not?**

**Possible responses:**

- It’s possible that closing an existing credit card could hurt Brickale’s credit score, rather than help it, if it was a long-term account.
- Transferring the balance to his wife’s card could hurt his wife’s credit score if it increases her credit utilization rate. This is because part of your credit score is based on the amount of credit you have compared with the amount you’ve used; this is known as the credit utilization ratio.
- Brickale and his wife may have to pay a fee to transfer the balance, and the transferred balance may carry a different interest rate.
- Brickale could sign up for alerts on the existing card if he has a way to receive that information.
- By transferring the balance, Brickale’s wife becomes solely responsible for the balance.
- Brickale might also consider an important benefit:
  - Since he is in the military, he can take advantage of the Servicemembers Civil Relief Act (SCRA) which limits the amount of interest you can be charged for certain loans or other obligations you took out prior to entry into active duty military service to 6 percent. The 6 percent interest rate cap applies to several types of loans or obligations, including: auto loans, mortgages, credit cards, other installment loans, and most student loans. He cannot take advantage of this protection if he transfers the balance.
- Brickale has the option of freezing his credit file. Starting September 21, 2018, anyone can freeze and unfreeze their credit file for free. Security freezes, also known as credit freezes, restrict access to your credit file, making it harder for identity thieves to open new accounts in your name. However, credit freezes will not prohibit access to your credit file by existing creditors.
Scenario 7

Two years ago, Carmen agreed to be a co-signer on a six-year car loan with her sister, Athena. Athena has always made car payments on time, until now. She recently lost her job and had to move. Carmen got a letter from the bank where the car was financed stating that no payments had been received for the past three months. What obligations does Carmen have on this loan? What advice would you give Carmen?

Possible responses:

- When you co-sign a loan, you are responsible for the full amount of the balance and as specifically described in the loan agreement. So, Carmen will be as responsible for making these payments as Athena is.
- The lender can seek to collect the amount due from either the primary borrower (Athena) or the co-signer (Carmen).
Sharing credit: Scenario strips

- Print one single-sided copy of the scenarios and cut into strips.
- Groups will use the graphic organizer in the “Sharing credit” worksheet to analyze the scenario and write down their responses.

Scenario 1

Joe and his son Cory have had a joint credit card since Cory was in college. Cory graduated 10 years ago and lives more than 1,000 miles away from his dad. Joe thinks it might be time to close this account. **What are the benefits and risks of this decision, and what should Joe do if he wants to make this happen?**

The resource below may help as you prepare your response:
https://www.consumerfinance.gov/ask-cfpb/ (Recommended search terms: joint credit cards, closing a credit card)

Scenario 2

Carys is trying to buy some new clothes with her credit card, but her purchase is declined because she has reached the limit on her card. She and her husband share that credit card. **How will this situation likely affect Carys’s husband?**

The resource below may help as you prepare your response:
https://www.consumerfinance.gov/ask-cfpb/ (Recommended search terms: credit limits, spouse and credit scores)

Scenario 3

Dante is afraid he won’t be able to get a credit card because he’s always lived with his parents and hasn’t had any bills in his own name. His options to establish credit include 1) getting a joint credit card with a parent; (2) becoming an authorized user on his parents’ credit card; or 3) trying to get a secured credit card on his own. **What are the benefits and risks of those options?**

The resource below may help as you prepare your response:
https://www.consumerfinance.gov/ask-cfpb/ (Recommended search terms: joint credit card, authorized user, secured credit card)
Scenario 4

Angel and Esperanza are newly married, and they get a lot of mail from credit card companies. They currently have separate credit accounts and have never thought about opening a joint account. But now they wonder if they should get a joint credit card instead of keeping their separate accounts. **What are the advantages and disadvantages of getting a joint credit card account?**

The resource below may help as you prepare your response:
https://www.consumerfinance.gov/ask-cfpb/ (Recommended search term: joint credit card)

Scenario 5

Sophia needs to borrow more money for college. She has already borrowed the maximum amount of available federal loans, which don’t require a co-signer, but her college costs exceed the maximum federal loan amount. She is considering private student loans, which typically require a co-signer. Her mom is willing to co-sign a loan. **What are the benefits and risks of having her mom co-sign a loan?**

The resource below may help as you prepare your response:
https://www.consumerfinance.gov/ask-cfpb/ (Recommended search term: co-signer)

Scenario 6

Brickale is a service member who’s heading overseas soon. He and his wife, Jill, have separate credit cards. Brickale likely won’t use his credit card while on his tour of duty, and he is considering closing the account and transferring the balance to his wife’s credit card to protect his credit. **Would this arrangement be good for Brickale and his wife? Why or why not?**

The resources below may help as you prepare your response:
https://www.consumerfinance.gov/ask-cfpb/ (Recommended search term: closing credit card)
https://www.consumer.ftc.gov/blog/2018/09/free-credit-freezes-are-here
Scenario 7

Two years ago, Carmen agreed to be a co-signer on a six-year car loan with her sister, Athena. Athena has always made car payments on time, until now. She recently lost her job and had to move. Carmen got a letter from the bank where the car was financed stating that no payments had been received for the past three months. **What obligations does Carmen have on this loan? What advice would you give Carmen?**

The resource below may help as you prepare your response:
https://www.consumerfinance.gov/ask-cfpb/ (Recommended search terms: co-signing loan, auto loan)