

LESSON EIGHT

WHO GETS THE MONEY?

INTRODUCTION

Purpose: In this lesson, students use benefit/cost analysis to make decisions about credit-worthiness. The costs and benefits for both borrowers and lenders are discussed. Students also determine strategies they can employ to improve credit-worthiness. Through these activities, students learn the importance of their decisions to maintain good credit and its effect on their ability to use credit to meet their financial goals.

Background: Because granting credit is a form of trust between lender and borrower, only credit-worthy applicants are granted credit at comparatively low rates of interest. The decision to grant credit comes after a careful analysis of an applicant's credit history. Individuals with good credit histories face reduced borrowing costs as interest rates are lower. They also benefit from having multiple sources from which they may borrow. Conversely, individuals who have poor credit histories have higher borrowing costs reflected in higher interest rates and reduced benefits, including the possibility of being ineligible for loans. From the point of view of the lender, persons with good credit histories present lower costs and less risk, and therefore, increase the profit potential of the lender.

The information used when deciding among credit applicants is commonly classified according to the Cs of credit, which include capacity, character, capital, and collateral. Information related to the Cs of credit is obtained from several sources including a credit application and a credit report. Borrowers who have made wise financial decisions related to the Cs of credit present fewer costs for lenders and are thus more likely to obtain loans.

Risk is related to uncertainty. In this case it is the uncertainty of repayment. People with poor credit histories represent more risk to lenders because, if they fail to repay, the lender's profits are reduced. To accept the additional risk, lenders

charge higher interest rates to people with poor credit histories if loans seem justified.

CONCEPTS

- Benefits
- Costs
- Credit
- Credit Application
- Credit History
- Credit Report
- Profit
- Revenue
- Risk

OBJECTIVES

- ◆ Identify the benefits and costs of good and bad credit histories.
- ◆ Understand how an applicant's credit history affects risk faced by lenders and, thus, their potential profits.
- ◆ Use the four Cs of credit to identify and define the characteristics of applicants used by lenders to decide whether to grant credit, and identify ways that they might use those characteristics to maintain their personal credit-worthiness.

LESSON DESCRIPTION

In this lesson, students discuss the benefits and costs of good and bad credit histories from the perspectives of borrowers and lenders. Acting in groups, the students examine the loan applications and credit reports of fictional credit applicants to determine the benefits and costs that the particular applicant might pose for a lender and to reach a decision about whether they would lend money to the applicant. This exercise will be followed by a discussion of the decisions reached by the students and the justification for those decisions. The teacher presents the students with the Cs of credit: character, capacity, capital, and collateral. Then the students discuss how they might ensure their future credit-worthiness as measured by the Cs. The students see that their decisions to maintain good credit and act as responsible borrowers make them more attractive to prospective lenders by

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potentially reducing the costs and increasing the benefits (profits) that they provide to the lender.

TIME REQUIRED

- ◆ Two fifty-minute class periods.

MATERIALS

One set of Activities 36 through 39 for each group of students

One copy of Activity 40 for each group of students (optional)

One copy of Activities 41, 42, and 43 for each student

Chalkboard or Overhead Projector

PROCEDURE

1. Explain that credit is a form of trust between lenders and borrowers and that lenders want to choose only trustworthy or (credit-worthy) applicants. Since there are many applicants, lenders usually have lots of alternative options for lending.
2. Point out that lenders are in business to make a profit, which means that they want to take in more money in revenue than they pay out in costs. Borrowers who do not repay on time or who fail to pay all or a portion of their debt increase lender costs, reducing lender profit, and so are not attractive to lenders.
3. Explain that lending involves a lot of risk on the part of the lender.
4. Define risk as uncertainty of repayment.
5. Explain that people with poor credit histories represent more risk to lenders because if the borrower fails to repay, the lender's profits will be reduced. To accept the additional risk, lenders charge higher interest rates to people with poor credit histories.
6. Explain that lenders attempt to minimize risk by carefully evaluating potential borrowers' willingness and ability to repay. Borrowers can lower the risk they represent to lenders by making personal finance decisions that show their willingness and ability to repay.
7. Explain that lenders gather information about applicants' willingness and ability to repay from two principal sources: a credit application and a credit report. The credit application is usually a form filled out by the applicant. (The teacher might want to obtain sample credit applications from local lenders.) Credit reports come from credit bureaus that keep files on credit users and sell the information to lenders.
8. Explain that students will be acting as a lender for the following exercise.
9. Divide the class into four groups of at least five students.
10. Distribute copies of Activities 36 through 39 to each group. Briefly explain the information provided for each applicant. If desired, also distribute one copy of Activity 40 to each group.
11. Distribute a copy of Activity 41 to each student. Explain that banks use several characteristics to evaluate and choose among applicants. These are often referred to as the Cs of credit: capacity, character, capital, and collateral. Review the information sheet with the student and define the Cs as follows.
 - A. Capacity refers to having sufficient income to repay the loan as agreed, taking into consideration the debts that the applicant already has outstanding.
 - B. Character refers to having a responsible attitude towards repaying credit and a past history of taking one's debts seriously.
 - C. Capital (not to be confused with the economic definition of capital) refers to the financial assets that could be sold to pay the debt should the borrower's income decline.
 - D. Collateral refers to the possibility that an item of value (possibly the item purchased

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with the borrowed funds) could be promised to the lender if the loan is not paid or the possibility that a family member or friend of the borrower may promise to repay the loan if the borrower fails to do so.

17. Explain to the groups that they should read the credit application and credit report for the four applicants, taking notes on each. Explain that they can grant two loans. Give the groups time to examine carefully the loan applications and credit reports. The students should consider the strengths and weaknesses of each applicant and the benefits and costs of lending to each. Activity 40 can be used to record this information, if desired.

18. Have a spokesperson for each group report the strengths and weaknesses of each applicant, the likely benefits and costs of lending money to the applicant, and whether they would grant the loan.

19. Distribute Activity 42. Lead the class in a discussion of the benefits to a borrower of having a good credit history and the costs of having a poor credit history. Then discuss benefits and costs faced by lenders when they lend to persons with good and bad credit histories.

CLOSURE

Restate the central premise of the lesson, that an individual's credit history poses benefits and costs for both lenders and borrowers.

Explain that lenders are in business to make a profit and that borrowers with poor credit histories add to lender risk, thereby reducing the potential for profit. Such applicants are less attractive to lenders and must pay higher interest rates to borrow.

Explain that the purpose of the exercise was to have them recognize that the financial decisions people make have benefits and costs that affect their credit history and thereby make them attractive or unattractive to lenders. For each of the Cs of credit, lead a discussion requiring the students to indicate four or five things they should do or avoid doing as they get older that would make them more attractive to lenders. Put the students' ideas on the board or overhead projector.

EVALUATION

1. Tell the students that they are the assistants to a loan officer at a local bank. Distribute a copy of Activity 43 to each student, and explain that they must evaluate Anton Richardson as a loan applicant. Instruct the students to write a memo to the loan officer for whom they work. In the memo, they should evaluate the benefits and costs to the lender of the decision to recommend lending or not lending based on the capacity, character, capital, and collateral of the applicant.

2. Present the students with the three scenarios described below. For each, have the students indicate which of the Cs of credit would be most affected by the decision made and in what way the decision would present a cost or benefit on the applicants' credit history.

- A. Jerry Smith is a college student. At the beginning of the school year in August, he rented an apartment and signed a one-year lease. When the school year ended in June he decided to move in with some friends for the summer to save on rent. He simply moved out of the apartment and told his landlord he would not be back and wouldn't be paying any more rent. Now Jerry has decided to apply for his first credit card. How might Jerry's decision to break his lease affect his credit card application? (Answer: Jerry's actions would affect the lender's assessment of his character and would present a cost to Jerry as lenders would suspect that he was not willing to keep his word when signing an agreement.)
- B. Monica Council needs a newer car and has a little money saved to make a down payment. She also wants to take an expensive vacation with a friend. She owes almost the maximum on her two credit cards. Today she received in the mail an offer to get a pre-approved credit card with a debt limit that should be just enough to cover the costs of the vacation. She has decided to get the card and use it to take the vacation. What might this decision mean

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when she tries to get the car loan?
(Answer: Monica's actions will affect her capacity as she will be adding to her debt. This will provide a cost to her in that lenders in the future will notice that she is at the maximum on three credit cards already, and they may not be willing to provide her any additional credit.)

- C. Andre Johnson started a new job about two years ago. Before receiving his first pay check he agreed to have 5 percent of his pay deducted and deposited directly into his savings account. Andre is planning to apply for a loan to buy some furniture for his apartment. How might his decision to have a regular savings plan affect his loan application? (Answer: Andre has improved his capital. His decision has benefits for his credit history. Lenders will know that if Andre has trouble paying the loan he can draw from his savings account to make the payments.)

SUGGESTIONS FOR FURTHER ENHANCEMENT

1. Have the students write a credit history on themselves using the Cs of credit as a guide. Ask the students to evaluate the benefits and costs of financial decisions they may have made in the past.
2. Obtain examples of loan applications from local lending institutions. Have the students complete the applications as best they can with the information they know about themselves. Then ask them to discuss how they might make themselves more attractive to lenders in the future.
3. Invite a loan officer to discuss how decisions are made regarding loans. Ask the visitor to come prepared to give examples of the most beneficial decisions that young people can make and the most costly things to avoid in building credit history.

PARENTAL INVOLVEMENT

1. Instruct students to take the information regarding loan applicants home. Have the student

explain to their parents the decision that was reached, and have the parent indicate what she or he would have decided.

2. Ask the students to write business letters to their parent. The letters should be written as if the students are loan officers and the parents are loan applicants. The contents of the letters should include the benefits and costs to the lender of granting or denying the application as evidenced in the strengths and weaknesses of the applicant's credit history, contained in the credit application and credit report.

RESOURCES

Financial Responsibility (education kit). For price and ordering information, contact: Office of Public Responsibility, American Express Company, 200 Vesey Street, New York, NY 10285-4850.

Credit Education: Strategies for Success, Vol. 1, 1994, 20 pp., free, National Coalition for Consumer Education, 434 Main St., #201, Chatham, NJ 07928 (201-635-1916). This publication highlights projects from 1991-1992 of the NCEE/AT&T Consumer Credit Education Fund. Includes useful strategies for developing and implementing consumer education programs along with descriptions of successful approaches for consumer credit education.

Credit Ready? Five Essential Lessons Before Starting to Use Credit, free, American Express Company, P.O. Box 4635, Trenton, NJ 08650-4635. This kit contains five self-contained learning capsules on credit with activity sheets and brief videos.

How to Use Consumer Credit Wisely (Teaching guide), 1991. For price and ordering information contact: International Credit Association, Publisher, 243 North Lindbergh Blvd., St. Louis, MO 63141-1757 (314-991-3030).

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ACTIVITY 36 COMPLETED LOAN APPLICATION AND CREDIT REPORT — APPLICANT 1

Loan Application

Personal Information:

(A) Applicant's Name: James Paul Anderson Date of Birth: 9-2-72
(S) Spouse's Name: Judith Rice Anderson Date of Birth: 9-29-73

Marital Status: (Please mark one)

single _____ married xx widowed _____ divorced _____

Address: 704 Houser Street Social Security #: (A) 002-92-8976
City: Leslietown (S) 202-35-7653
State: VA Zip: 24523
Phone: (703) 927-0909

Dependents: Relationship: Age:
Sean Stuart Anderson son 6 mos.

Education: (Record only your highest level of education attained)

(A) High School Diploma (S) High School Diploma

Employment: (List only the current jobs held by you or your spouse)

(A): Construction laborer (S): Housewife
Building Contractors, Inc.

Household gross annual employment income: \$22,500
Approx. net annual employment income: \$18,000
Other Income: none

Housing Information:

Do you: own _____ rent xx live with others _____?
Monthly mortgage or rent expense: \$550

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ACTIVITY 36 (Continued)

Current Loans Outstanding: (List the lender, loan type, balance owed, monthly payment, and remaining period of loan)

1) First/Seventh Bank	Personal Loan	\$1,960	\$187	11 mos.
2) You Buy It Now	TV/Furniture	\$3,000	\$113	32 mos.

Credit Cards: (List the name of the lender, type of card, current balance outstanding, typical monthly payment)

1) First/Seventh Bank	VIDA Card	\$2,500	\$45
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References: (You must list in the designated order: your current employer, previous employer, and nearest relative not living with you)

1) Samantha Sternwell	Building Contractors, Inc.	(703) 927-7623
2) Jason Briddet	Skyscrapers, Incorporated	(703) 937-8354
3) Martha S. Anderson	Leslietown, VA	(703) 927-0098

Purpose of loan: We would like to buy a new car. Our current car is not reliable and needs repair. We would like to borrow \$8,000 for four years and think we could afford the monthly payment of \$194.

Credit Report

James P. and Judith Anderson

Financial Information:	Item	Balance/Value
Checking Account(s):	First/Seventh Bank	\$3,000
Saving Account(s):	First/Seventh Bank	\$2,000
Investments:	none	
Real Estate:	none	

Reference Information:

Landlord:	Always pay rent on time. Excellent tenant. Good neighbor to others in building.
First/Seventh Bank:	New customer but timely with payments. They took out a personal loan last month, have had their credit card for six months, and have been paying the minimum on their balance each month.
You Buy It Now:	Recently opened their account. Timely payments so far.

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ACTIVITY 37

COMPLETED LOAN APPLICATION AND CREDIT REPORT — APPLICANT 2

Loan Application

Personal Information:

(A) Applicant's Name: Tiffany Deligh Date of Birth: 1-15-70
(S) Spouse's Name: Date of Birth:

Marital Status: (Please mark one)

single xx married _____ widowed _____ divorced _____

Address: 9191 Edgemare Drive Social Security #: (A) 778-90-6732
City: Leslietown (S)
State: VA **Zip:** 24523
Phone: (703) 927-1112

Dependents: none **Relationship:** **Age:**

Education: (Record only your highest level of education attained)

(A) Bachelor of Science in Marketing (S)
University of Leslietown

Employment: (List only the current jobs held by you or your spouse)

(A): Advertising Executive (S):
Billboards Galore

Household gross annual employment income: \$38,000
Approx. net annual employment income: \$30,000
Other Income: \$2,000
You Sell It -- We'll Advertise It
(Personal Business)

Housing Information:

Do you: own xx rent _____ live with others _____
Monthly mortgage or rent expense: \$982

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ACTIVITY 37 (Continued)

Current Loans Outstanding: (List the lender, loan type, balance owed, monthly payment, and remaining period of loan)

1) Second/Sixth Bank	Personal	\$9,000	\$207	57 mos.
	Business			
2) Second/Sixth Bank	Auto	\$240	\$246	1 mos.
3) Wildcat Lenders	Education	\$19,500	\$348	67 mos.

Credit Cards: (List the name of the lender, type of card, current balance outstanding, typical monthly payment)

1) Second/Sixth Bank	VIDA Card	\$8,500	\$125
2) Second/Sixth Bank	Charge-It-Master	\$5,000	\$ 75

References: (You must list in the designated order: your current employer, previous employer, and nearest relative not living with you)

1) Hayward Stephens	Billboard Galore	(803) 937-9998
2) no previous employer		
3) Ronald Deligh	Winston, CA.	(909) 843-1121

Purpose of loan: I would like to buy a new car. I am about to pay off my current car and don't want it anymore. If I borrow \$28,000 for five years, my payment would be \$580 per month and I could get a Corvette.

Credit Report

Tiffany Deligh

Financial Information:

	Item	Balance/Value
Checking Account(s):	Second/Sixth Bank	\$ 500
Saving Account(s):	Second/Sixth Bank	\$ 1,000
Investments:	IMF Mutual Funds	\$ 5,000
Real Estate:	9191 Edgemare Drive	\$10,000*

*value of home less what is owed on its mortgage

Reference Information:

Mortgage Holder:	Frequently late making payments. Currently, behind one monthly mortgage payment.
Second/Sixth Bank:	Has two outstanding loans and two credit cards with our bank number. She has been late with her payments in the past. Currently, up to date with both of her loan payments. However, her credit cards are at their maximum credit limit and she has been paying the minimum payment on her balance owed.
Wildcat Lenders:	Always pays on time.
Ronald Deligh:	Is willing to cosign on a loan for his daughter.

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ACTIVITY 38 COMPLETED LOAN APPLICATION AND CREDIT REPORT — APPLICANT 3

Loan Application

Personal Information:

(A) Applicant's Name: Claudette Ransdia Date of Birth: 12-08-53
(S) Spouse's Name: Landon H. Ransdia Date of Birth: 8-01-54

Marital Status: (Please mark one)

single _____ married xx widowed _____ divorced _____

Address: 5608 Uptown St. Social Security #'s: (A) 209-96-1746
City: Leslietown (S) 207-33-7330
State: VA Zip: 24533
Phone: (703) 937-1990

Dependents:	Relationship:	Age:
S. Olivia Ransdia	daughter	16
John S. Ransdia	son	13
Erin E. Ransdia	daughter	12

Education: (Record only your highest level of education attained)

(A) Juris Doctor (S) Master of Arts in Education
James Madison University University of Wyoming

Employment: (List only the current jobs held by you or your spouse)

(A): Attorney (S) Teacher
Jones, Barnett, & Cline Leslie County Middle School
Attorneys at Law

Household gross annual employment income: \$95,000
Approximate net annual employment income: \$71,500
Other Income: none

Housing Information:

Do you: own xx rent _____ live with others _____
Monthly mortgage or rent expense: \$1,250

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ACTIVITY 38 (Continued)

Current Loans Outstanding: (List the lender, loan type, balance owed, monthly payment, and remaining period of loan)

1) Leslietown Bank	Auto	\$ 4,300	\$145	33 mos.
2) Leslietown Bank	Auto	\$ 8,000	\$247	38 mos.
3) Leslietown Bank	College	\$21,000	\$293	93 mos.
4) Leslietown Bank	Motor Home	\$26,000	\$587	57 mos.

Credit Cards: (List the name of the lender, type of card, current balance outstanding, typical monthly payment)

1) Leslietown Bank	VIDA	\$ 250	in full
2) Leslietown Bank	Charge-it-Master	\$ 750	in full
3) AmeriPlan Bank	Explorers	\$ 6,750	\$1,000

References: (You must list in the designated order: your current employer, previous employer, and nearest relative not living with you)

1) (A) Reginald Jones	Jones, Barnett, & Cline Attorneys At Law	(703) 599-4325
(S) Janis Franken	Leslie County Schools	(703) 927-4443
2) (A) John Becker	McKenzie, Breakman, and Becker, Inc.	(703) 929-2929
(S) No previous employer		
3) Mia Ransdia	Band, KY	(502) 224-2224

Purpose of loan: We would like to buy a boat. We vacation every summer at the lake and the kids like to water ski. We would like to borrow \$10,000 for seven years and think we could afford the monthly payment of \$174.

Credit Report

Landon H. and Claudette Ransdia

Financial Information:	Item	Balance/Value
Checking Account(s):	Leslietown Bank	\$ 2,500
Saving Account(s):	Leslietown Bank	\$ 1,000
	AmeriPlan Bank	\$ 4,000
Investments:	AmeriPlan Fund	\$22,000
	Digitec Corp. Stock	\$16,000
Real Estate:	5608 Uptown Street	\$67,000*

*value of home less what is owed on its mortgage

Reference Information:

Mortgage Holder: Always pay mortgage on time. We have been doing business with this couple for 20 years.

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ACTIVITY 38 (Continued)

Leslietown Bank: Currently, we have four loans and two credit cards with the applicant. They have never been late with a payment in 20 years. Their credit cards are always paid off in full each month.

AmeriPlan Bank: Credit card balance fluctuates between \$8,000 and \$0 each year with the highest balances in late summer and lowest in early spring.

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ACTIVITY 39

COMPLETED LOAN APPLICATION AND CREDIT REPORT — APPLICANT 4

Loan Application

Personal Information:

(A) Applicant's Name: Mr. Rhett Willis Date of Birth: 11-14-55
(S) Spouse's Name: Date of Birth:

Marital Status: (Please mark one)

single _____ married _____ widowed _____ divorced xx

Address: 14 Town St. Social Security #: (A) 402-48-3278
City: Leslietown (S)
State: VA Zip: 40533
Phone: (883) 927-3345

Dependents:	Relationship:	Age:
Mary Jo Willis	daughter*	11
Melanie Willis	daughter*	9

*Mr. Willis's daughters live with their mother who receives \$450 in child support each month from their dad.

Education: (Record only your highest level of education attained)

(A) Associate's Degree (S)
Leslietown Community College

Employment: (List only the current jobs held by you or your spouse)

(A) General Electrician (S)
Self-employed

Household gross annual employment income: \$35,000
Approximate net annual employment income: \$28,000
Other Income: none

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ACTIVITY 39 (Continued)

Credit Report

Mr. Rhett Willis

Financial Information:	Item	Balance/Value
Checking Account(s):	Second/Sixth Bank	\$1,250
	Second/Sixth Bank	\$2,900
Saving Account(s):	Second/Sixth Bank	\$ 500
Investments:	None	
Real Estate:	None	

Reference Information:

Landlord:	Mr. Willis has been a tenant for four years. He always pays his rent although he has been late a couple times in the last six months.
Second/Sixth Bank:	Mr. Willis has been a long-standing customer. Mr. Willis always pays his automobile loan on time. His credit cards have outstanding balances but he has made payments on them in a timely fashion.
First/Seventh Bank:	Mr. Willis always pays his auto loan on a timely basis.
Clarence Mims:	Mr. Willis was a faithful and dedicated employee for 15 years before he resigned six months ago to start his own business. He buys equipment and supplies from us and always pays on time.
Thomas Willis:	Cannot cosign on a loan. He is elderly and has a limited, fixed income.

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ACTIVITY 40

APPLICANT SUMMARY SHEET

Loan Applicant _____

What information does the applicant's credit application and credit report tell you about their:

Strengths?

Weaknesses?

What are the potential benefits of lending money to this applicant?

What are the potential costs and risks of lending money to this applicant?

Would you lend money to this applicant?

YES _____ NO _____

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ACTIVITY 41

THE Cs OF CREDIT

In evaluating a credit application, lenders consider the "Cs" of credit:

1. **Capacity** is the income available to make repayment. Having a substantial income, having the same job for a number of years, and not having a lot of other debts suggest a strong financial capacity to repay. Capacity relates to the ability to pay for the loan.
2. **Character** involves your honesty and reliability in meeting financial responsibilities. Your previous credit history indicates how highly you value paying bills on time. Are you the kind of person who takes debts seriously and pays all debts on time and in full? Character relates to the willingness to pay for the loan.
3. **Capital** is a measure of your financial worth. Questions about assets (home ownership, stocks, savings accounts) and liabilities (balance due on present credit accounts) reveal whether you have the funds to pay all your loans, including the one you are seeking, should your income drop. In other words, will you have more debt than you can handle if you receive the sought after loan and you lose some or all of your income? Capital relates to assets that might be used to cover the loan should income (capacity) be reduced.
4. **Collateral** is property offered and pledged to secure repayment of a loan and subject to seizure should the borrower default. It makes good sense for a lender to rely more on an automobile put up as collateral than on the smiling face of a credit applicant. Should the debtor later default, the automobile would be sold and the proceeds applied against the loan. Included under collateral would be a promise from a family member or friend of the borrower to repay the loan if the borrower fails to do so. This is called cosigning.

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ACTIVITY 42

YOUR CREDIT HISTORY: BENEFITS AND COSTS

Your credit history is derived from information you supply on a loan application as well as from your credit report (obtained from a credit reporting agency which compiles information supplied by your credit grantors regarding your account activity).

Benefits of making financial decisions that result in a good credit history:

1. Obtaining future credit can be quick and easy.
2. You will have many more lenders to choose from since most will be interested in lending money to you.
3. Your costs of borrowing will be lower because you can shop among many lenders and can choose those with lower interest rates.
4. Positive information stays in your credit history forever, continuing to build and enhance your credit worthiness.
5. What other benefits might result from having a good credit history?

Costs of making financial decisions that result in a poor credit history:

1. Obtaining future credit can be difficult and time consuming, and credit may not be available at all.
2. You will have few lenders to choose from since most will not be interested in lending to you.
3. Your costs of borrowing will be higher because you cannot shop among many lenders and choose those with lower interest rates.
4. Negative information stays on your record for seven years.
5. What other costs might result from having a poor credit history?

Benefits of lending to applicants that have a good credit history:

1. Granting credit is less time consuming and costly.
2. Profits will be enhanced as revenue (interest) will be paid on time.
3. Risk of nonpayment will be reduced.
4. What other benefits might result from lending to people with a good credit history?

Costs of lending to applicants that have a poor credit history:

1. The application process for borrowers with poor credit histories is more complicated and time consuming and, therefore, more costly for lenders.
2. The costs of collecting and servicing the loan will increase, reducing profits.
3. Some loans will not be fully repaid, thereby reducing profits.
4. What other costs might result from lending to a person with a poor credit history?

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ACTIVITY 43

EVALUATION EXERCISE

Loan Application

Personal Information:

(A) Applicant's Name: Anton Richardson Date of Birth: 02-20-60
(S) Spouse's Name: Date of Birth:

Marital Status: (Please mark one)

single _____ married _____ widowed xx divorced _____

Address: 832 Bell Street, Condo #3 Social Security #: (A)123-45-6789
City: Leslietown (S)
State: VA Zip: 40533
Phone: (703) 927-4775

Dependents: Erin Mae Richardson
Relationship: daughter

Education: (Record only your highest level of education attained)

(A) B.S. in Finance (S)
University of Leslietown

Employment: (List only the current jobs held by you or your spouse)

(A) Real Estate Broker (S)
The House Finders, Inc.

Household gross annual employment income: \$120,000
Approximate net annual employment income: \$ 92,600
Other Income: \$ 2,500 from real estate investment
Lake Edge Apartments

Housing Information:

Do you: own xx rent _____ live with others _____
Monthly mortgage or rent expense: \$600

Current Loans Outstanding: (List the lender, loan type, balance owed, monthly payment, and remaining period of loan)

1) First/Seventh Bank Auto \$8,300 \$ 223 44 mos.

Credit Cards: (List the name of the lender, type of card, current balance outstanding, typical monthly payment)

1) Second/Sixth Bank Charge-it-Master \$2,500 \$200
2) Second/Sixth Bank Explorer Card \$1,000 \$100

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ACTIVITY 43 (Continued)

References: (You must list in the designated order: your current employer, previous employer, and nearest relative not living with you)

- 1) Self-employed
- 2) Clarence Jones Leslietown Electric Supply (803) 937-0100
- 3) Thomas Willis Leslietown, VA (803) 927-4843

Purpose of loan: My new business is starting to become prosperous, and I need a van to haul tools and supplies. I have been using my car, and it is just not up to the task. It also looks more professional to have a van. I would like to borrow \$14,000 for four years and feel I could afford the monthly payment of \$335. If necessary, I could take the loan for five years to lower the monthly payment to \$276.

Credit Report

Anton Richardson

Financial Information:	Item	Balance/Value
Checking Account(s):	First/Seventh Bank	\$ 1,250
	Second/Sixth Bank	\$ 650
Saving Account(s):	First/Seventh Bank	\$ 1,900
	Second/Sixth Bank	\$ 400
Investments:	None	
Real Estate:	832 Bell Street	\$18,000*
	Lake Edge Condominiums	\$10,000*

*value of home and apartments less what is owed on each mortgage

Reference Information:

- Mortgage Holder:** Mr. Richardson is currently one payment behind in his mortgage. He is often late with his payment and one month will make no payment and then make two payments the next month.
- First/Seventh Bank:** He is frequently late in his payment of his loan. Currently, he is two payments behind. He also has a credit card with us that has a debt of \$7,500. He is 25 days late in this payment.
- Business Bankers:** Mr. Richardson had a previous business partnership loan with Dick Arnold. Mr. Arnold left town and has not carried his share of this outstanding loan. As the situation stands right now, Mr. Richardson is paying off that business debt. He has not always been timely with his payments. Currently, this loan is up-to-date.

LESSON EIGHT

ACTIVITY 43 (Continued)

- Second/Sixth Bank: Mr. Richardson is current with his real estate investment loan. However, he is occasionally late with his payment. His credit card has reached its maximum debt limit. He is one credit card payment behind.
- Walker Johnson: Due to the nature of Mr. Richardson's work, his income fluctuates drastically, with some months doing very well and others with little or no income as no homes have been sold.
- Michelle Austin: Mr. Richardson left Financial Solutions on unpleasant terms. He borrowed \$12,000 from our company and has not repaid it.
- Littaly Richardson: Mr. Richardson's father will not cosign on a loan with his son.