

# Lesson 4: Credit & Loan

Learn to manage your credit!

Nov 19,2025



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# What is Credit & Loans?

Credit and loans are powerful financial tools that can help you achieve independence, build stability, and reach goals such as buying a car, starting a business, or securing housing. However, they can also create challenges if not managed wisely. This packet will help you understand the basics, build confidence, and practice skills to use credit responsibly.

## What is Credit?

- **Definition:** Credit is the ability to borrow money or access goods/services with the promise to pay later.
- **Types of Credit:**
  - Credit Cards - revolving credit you can use repeatedly up to a limit.
  - Installment Loans - fixed payments over time (car loans, student loans).
  - Lines of Credit - flexible borrowing, often from banks.
- **Key Terms**
  - Credit Score: A number (usually 300-850) that shows how trustworthy you are to lenders.
  - Credit Report: A record of your borrowing history.
  - Interest Rate: The cost of borrowing money, expressed as a percentage.

## What is a Loan?

- **Definition:** Money borrowed from a lender that must be repaid with interest.
- **Common Loans:**
  - Personal loans
  - Auto loans
  - Student loans
  - Mortgages
- **Loan Basics**
  - Principal: The amount you borrow.
  - Interest: Extra money you pay back to the lender.
  - Term: How long you have to repay.
  - Monthly Payment: The amount due each month.

# Credit & Loans

## Why Credit Matters

- Helps you rent an apartment or buy a home.
- Makes it easier to get a job (some employers check credit).
- Allows you to borrow at lower interest rates if your score is strong.
- Builds financial independence and reduces reliance on others.



## How to Use Credit and Loans Wisely

- Borrow only what you need.
- Pay on time to avoid late fees and protect your credit score.
- Keep balances low compared to your credit limit.
- Understand the terms before signing any loan agreement.

## Common Pitfalls to Avoid

- Taking on debt without a repayment plan.
- Using credit cards for everyday expenses without budgeting.
- Ignoring interest rates and fees.
- Co-signing loans without understanding the risks.



# Activities

## Activity 1: Credit Card Scenario

Imagine you have a credit card with a \$1,000 limit. You spend \$200 on groceries and \$300 on clothes.

What is your balance?

If the interest rate is 20%, what happens if you only pay the minimum?

## Activity 2: Loan Comparison

Compare two loans:

Loan A: \$5,000 at 5% interest for 3 years.

Loan B: \$5,000 at 10% interest for 3 years.

Which loan costs more? Why?

## Activity 3: Build Your Budget

Create a simple monthly budget including income, rent, utilities, food, and debt payments. Practice fitting a loan payment into your plan.

# Reflection & Resources

## Reflection Questions

- How does understanding credit make you feel more independent?
- What financial goals could you achieve with responsible borrowing?
- What steps can you take today to build or improve your credit?

## Resources

- [AnnualCreditReport.com](https://www.annualcreditreport.com): Free credit report once a year.
- [Consumer Financial Protection Bureau \(CFPB\)](https://www.consumerfinance.gov): Guides on loans and credit.
- Local credit unions: Often provide financial literacy workshops
  - Ent Credit Union- Headquartered in Colorado Springs, Ent is the largest credit union in the state with over 50 branches. Known for competitive auto loan and mortgage rates, plus strong community involvement.
  - Bellco Credit Union - Based in Greenwood Village, Bellco offers flexible loan options and consistently competitive rates on personal loans and mortgages.
  - Canvas Credit Union - Located in Lone Tree, Canvas provides affordable auto loans and credit cards, with a reputation for member-friendly service.

