

Lesson 4: Credit & Loan

Learn to manage your credit!

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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://annualcreditreport.com): Free credit report once a year.
- Consumer Financial Protection Bureau (CFPB): 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.

