



National Center on  
Parent, Family, and Community Engagement

# Financial Capabilities: Understanding Credit and Debt

Session 7 | May 6, 2021



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## Your Session Console



2021 FAMILY ECONOMIC MOBILITY INSTITUTE

Media Player: Content not available or is still being processed

Presenter Slides

Questions

Related Content and Helpful Links

Presenter Bio

Certificate of Attendance

Criteria for Full Credit

Minutes to Watch: 40



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# Facilitators



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# Learning Objectives

Understand	Acquire	Demonstrate	Review
<ul style="list-style-type: none"><li>Understand the importance of credit and how it is crucial to overall economic mobility</li></ul>	<ul style="list-style-type: none"><li>Acquire an increased level of comfort in discussing credit and debt with families</li></ul>	<ul style="list-style-type: none"><li>Demonstrate how debt impacts an individual's credit score, and share tools that families can use to develop a plan to pay down their debt (and thus increase their credit)</li></ul>	<ul style="list-style-type: none"><li>Review resources that help families know their rights as consumers</li></ul>

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# Credit and Debt

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## Your Role as a Trusted Family Partner

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# Context

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- The pandemic and its ongoing effects
- The role of structural racism
- The complications of finances—and the resources and professionals you can turn to

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# Poll

What are your hesitations around discussing credit with families?

- A. I struggle with my own credit, so I'm not sure I can be helpful to others.
- B. Families are hesitant or uncomfortable discussing credit.
- C. A and B.

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## Discussion



- What is credit?
- How does it differ from debt?

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## Credit and Debt

- **Credit** is the **ability to borrow money**.
- **Debt** is money you **have to pay back** when you've used credit.



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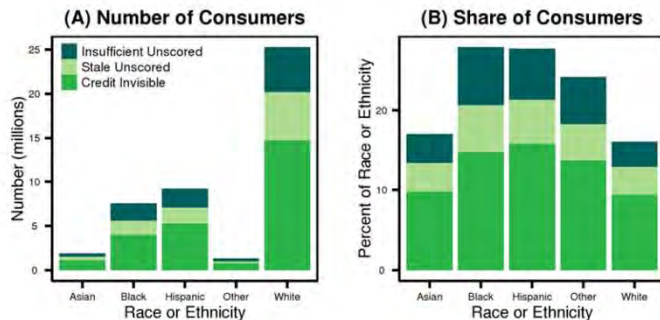
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## Unequal Access to Credit

**Credit Invisible:** You have no credit history with any of the credit-reporting companies.

FIGURE 3: NUMBER AND INCIDENCE OF CONSUMERS THAT ARE CREDIT INVISIBLE OR HAVE AN UNSCORED CREDIT RECORD BY RACE OR ETHNICITY



Source: Credit Financial Protection Bureau Office of Research (2015). Data point: Credit invisibles.

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Discussion 


Why might having a good credit history or strong credit score be helpful?


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## Credit as an Asset

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Get and Keep a Job 

Get Better Loan Terms 

Secure Housing 

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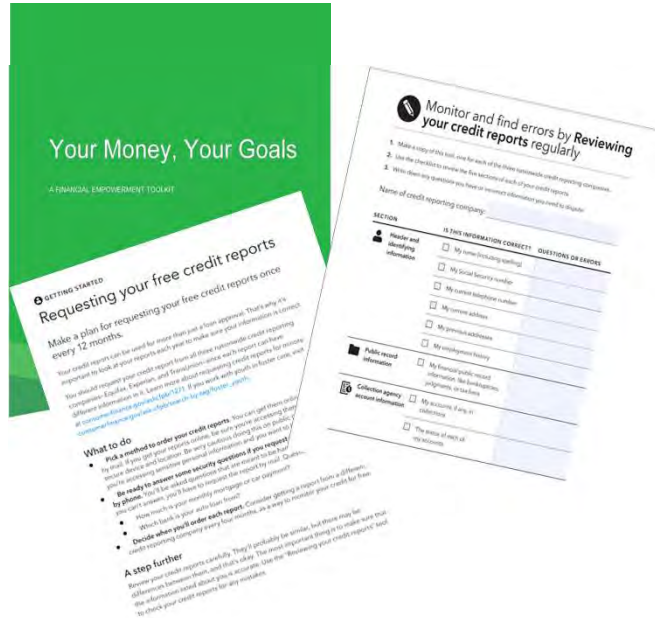
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# Taking Control

Families can take control of their financial security by reviewing credit reports.

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# Incorrect Credit Reports

What if something on a credit report is incorrect?

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## Building Good Credit

- 1**  
Secured Credit Card
- 2**  
Credit Builder Loan
- 3**  
Retail Store Credit Card

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## Defining Debt

- Money you owe
- A liability
- Part of your monthly budget
- The result of using credit



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## Debt-to-Income Ratio

How much is too much?



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## Methods for Reducing Debt

High-interest Rate  
("Avalanche")



Start Off Small  
("Snowball")



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Discussion



High-interest rate ("Avalanche")



- What might some pros be of this method?
- Cons?

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# Discussion



## Start Off Small (“Snowball”)



- What might some pros be of this method?
- Cons?

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# Debt Action Plan Tool



### Start reducing your debt by making a Debt action plan

1. Review the pros and cons of each strategy for paying down debt.
2. List your top three debts, sorted based on the strategy you choose—either by smallest total dollar amount or highest interest rate.

	PAY SMALLEST DEBT FIRST	PAY HIGHEST INTEREST RATE FIRST																
Description	After you've made all your minimum payments, increase your payment on the smallest debt. After it's paid off, add that extra amount to your minimum payment on the next smallest debt.	After you've made all your minimum payments, increase your payment on the debt that has the highest interest rate. After it's paid off, add that extra amount to your minimum payment on the next highest-rate debt.																
Pro	If you have many small debts, you might see progress quickly by reducing the number of debts you own.	By paying off the debts that charge you the highest interest and fees first, you save money overall.																
Con	If the interest rate and fees are high on your larger debts and you pay the smaller ones first, you might pay more in total over the length of the debt.	You might not feel like you're making progress very quickly, especially if the first debt is large.																
	<input type="checkbox"/> I'll pay down the smallest debt first, in this order:	<input type="checkbox"/> I'll pay down the debt with the highest interest rate first, in this order:																
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>DEBT</th> <th>AMOUNT</th> </tr> </thead> <tbody> <tr><td>1.</td><td>\$</td></tr> <tr><td>2.</td><td>\$</td></tr> <tr><td>3.</td><td>\$</td></tr> </tbody> </table>	DEBT	AMOUNT	1.	\$	2.	\$	3.	\$	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>DEBT</th> <th>INTEREST RATE</th> </tr> </thead> <tbody> <tr><td>1.</td><td>%</td></tr> <tr><td>2.</td><td>%</td></tr> <tr><td>3.</td><td>%</td></tr> </tbody> </table>	DEBT	INTEREST RATE	1.	%	2.	%	3.	%
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## Complicated Debt Scenarios

- Debt traps
- Debt collectors
- Debt settlement plans




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## Resources

- Your Money, Your Goals tools:
  - "Requesting Credit Reports"
  - "Reviewing Credit Report"
  - "Dispute Errors on Credit Reports"
  - "Debt Action Plan"
- Economic Mobility Toolkit for Head Start and Early Head Start, Key Topic 3: Building Credit and Managing Debt
- Credit and Debt Counselors, Financial Coaches
- Free Credit Reports
- Information about settling credit card debt
- Information about credit and debt assessments

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## Key Takeaways

- Managing credit and debt are crucial to achieving economic mobility. As trusted family partners, we can help families understand these topics and create action plans to manage them.
- Credit is key to many long-term goals, but credit also is tied to a history of systemic racism in financial practices. Acknowledging this in our work with families is important.
- Credit and debt are complicated! Remember that there are resources available to support your work with families, and that there are places to turn to when a family member needs help from a financial professional.

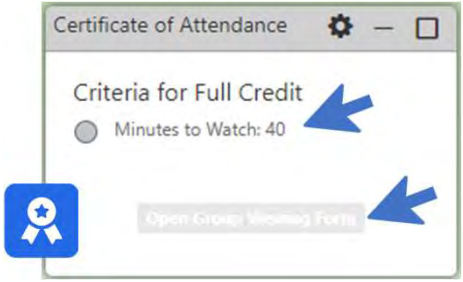
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## Certificates, Session Resources, and Institute Survey

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- Download your certificate of attendance and session handouts from the related content tool.
- Complete the Institute Survey at the end of the two-day event.



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# Let's Get Vaccinated!

Head Start staff, let's move forward together!

The COVID 19 vaccine is:

- Safe for adults
- Effective
- Available in your area

#SleeveUp4HeadStart

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## Self-care Break

Join us in the Engagement Hub.


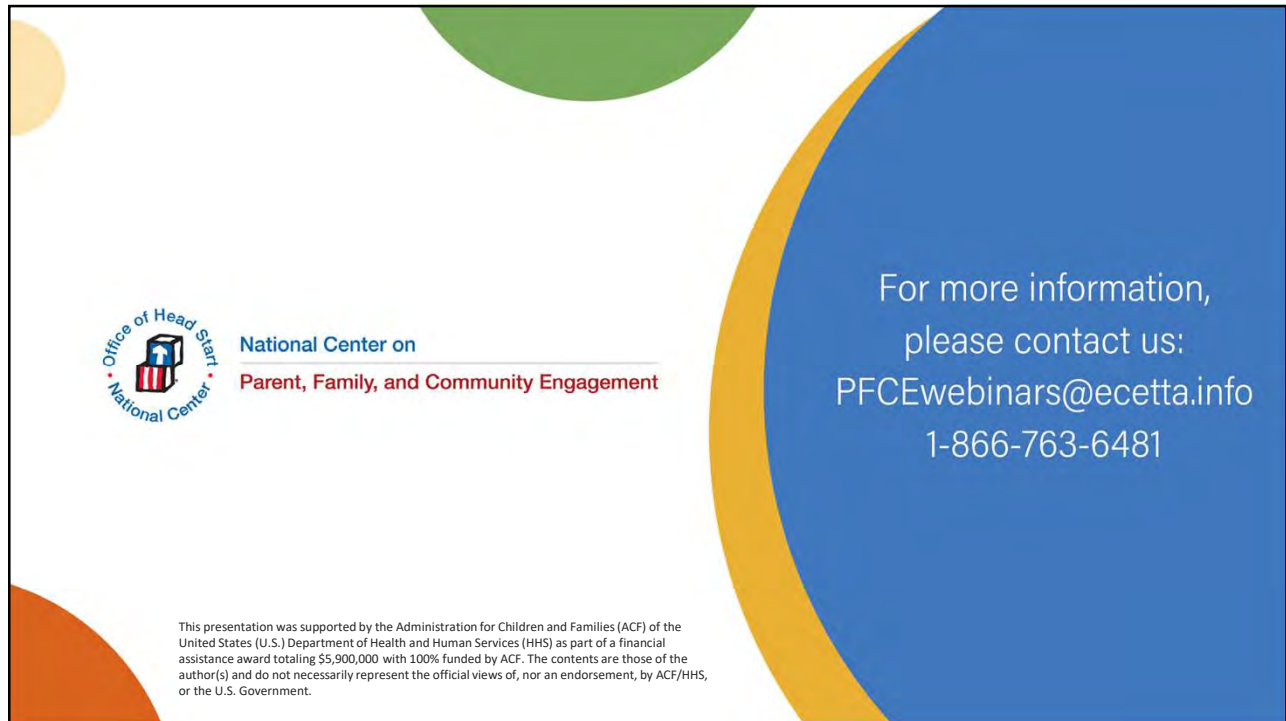
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