



Activity 4: Borrowing Barriers

Reach each scenario. Indicate which of the Four Cs are affected by each of the barriers to borrowing money: Capital, Collateral, Character, and/or Capacity. There may be more than one correct answer.

1. Consistently making late payments: Jeremy bought a cell phone because he works late at the movie theater on the weekends. At first, he made all of his payments on time. However, he had to quit his job because he had trouble in school and needed more time to study. He signed a 1-year contract and is having difficulty making payments. He has made late payments for the past 3 months.

2. Filing for bankruptcy: Jeremy's older brother, who is in college, applied for and received several credit cards. He maxed out (met his credit limit on) all of the credit cards, and then he could not afford to make the payments. He filed for bankruptcy, which shows lenders his inability to manage money and pay bills.

3. Not enough assets: Joe wants to buy a house. He has a job, and the house will be collateral for the loan. However, Joe does not have enough money in his checking and savings account to reassure the lender that after closing he will have enough funds to make a payment or home repair in an emergency.

4. No credit history: Sareta wants to apply for a credit card. She is in college and does not have a regular income. She also has no credit history. Therefore, she will need to ask her mother or father to cosign the loan.
