

Money & Me Educator's Lesson Guide

Title:	Using Credit Wisely
Goals:	Students will be better able to: <ul style="list-style-type: none">- Compare advantages and disadvantages of using credit- Understand how to apply for credit- Manage credit responsibly- Explain consequences of excessive debt and how to correct it
Summary:	After completing this unit, students will be able to select strategies to use in handling credit and managing debt.

Day 4

Part 1

8:30-8:50 (20 minutes)

Review of Day 3's lesson; ask volunteer to share keys points
Review goals for today

Do NEFE HSFPP **Can I Borrow** activity as an opener (IM pp. 95 & 112 for the activity cards)
(10 minutes)

Part 2

8:50-9:35 (45 minutes)

State that the students will watch a ½ hour episode of *Biz Kid\$*, followed by a group activity.

Play *Biz Kid\$* DVD #115 "Credit: The Good, The Bad, & The Ugly." This same episode may also have the title "Using Your Credit—Crazy or Compelling?"

The episode you are about to see will explain the true cost of purchasing with credit. You'll also have a look at credit scores and the increasing number of people and places (employers, insurers, colleges, etc.) who are using these scores to make major decisions that could affect your future. Meet entrepreneurs who have successfully navigated credit pitfalls.

Refer to Biz Kid\$ Activity for Episode #115 (15 minutes)

BREAK 9:35-9:45

Part 3

9:45-10:20 (35 minutes)

Begin instruction using NEFE HSFPP Unit 4: Good Debt, Bad Debt

Have students work with partners to complete **What Do You Think? activity** (IM p.96 , SG p. 42)

PPT 4-A has the answers to the What Do You Think? activity. Initiate a discussion about credit and what surprised students most about the statistics.

PPT 4B-4C-4D-4E (IM p. 98; SG p. 44)

Have students work with their partners again to complete **Exercise 4A: What Info Do You Need for a Loan?** Collect samples of loan applications from the credit union or use NEFE SM4-1. Ask students: What type of information is requested? Why do you think the information is needed for approval?

Use PPTs 4-F, 4-G, 4-H, 4-J, and 4-K to compare advantages and disadvantages of using credit.

As a class review the rewards and risks of credit. **Exercise 4C** (IM p. 100, SG p. 46)

BREAK

10:20-10:30

Part 4

10:30-11:20 (50 minutes)

Review 4C's of credit and how you would apply for credit; PPT 4-L (IM p.101, SG p. 47)

Discuss significance of credit ratings and how credit ratings are determined.

Use PPT 4-M, 4-N, and 4-O to go over ways to establish and keep a good credit score. (IM p. 104, SG p.50)

Show Power point 4-P to introduce the 70-20-10 Rule to manage debt (IM p. 107, SG p. 53)

Invite the credit union's loan officer to talk to the class. They could use a case study (or complete a fake sample loan application that can be handed out to the students for review) in place of Exercise 4C: Apply for a Loan and discuss which aspects of the applicant's information reveals their collateral, capital, capacity and character. They could also discuss the importance of a good credit history in applying for a loan and credit reports.

Note: there are no slides for the rest of the unit on debt and bankruptcy.

Additional Resources:

Brass Magazine- August 2008 "Credit Cards Backstage"
Spring 2009 "Taking the High Road"

Covera "Get Carducated" Videos (created by teens for teens)-

Carducator to the Rescue

By: Max Sullivan, Buffalo Metropolitan FCU

Description: Max covers the importance of careful spending with fun, hand-drawn animation and a guest appearance by Carducator.

Runtime: 7:36

File name: thewholething.mov

YouTube link: http://www.youtube.com/watch?v=RQ_tATTh_mU

Be Responsible with Credit/Debit Cards!

By: Allen Ferris, Capital Communications FCU

Description: Allen explores what can happen when a credit card bill goes unpaid...and how to keep it from happening to you!

Runtime: 4:01

File name: Credit_Card_Project.mp4

YouTube link: <http://www.youtube.com/watch?v=FpT0YjPV8iQ>

Both files can be opened with Real Player, or accessed via YouTube links.

BREAK 11:20-11:30

Part 5

11:30-Noon

JA Group Activity

Scenario Sheet Solutions

Refer to JA Personal Finance Guide for Volunteers and Teachers

Session Three: Your Credit, Your Future (pp. 24-29)

Allow 20-25 minutes to play the game and 5 minutes to review and wrap up

Preparation for Day 3

Before you leave, which one of you is willing to give tomorrow morning's summary of what we did together today? Record name of volunteer.



NEFE High School Financial Planning Program
Unit 4 - Good Debt, Bad Debt: Using Credit Wisely

Credit Facts

- Nearly **33%** of teens owe money to either a person or company, with an average debt of **\$230**.
- About **26%** of teens ages 16-18 already have more than \$1,000 in debt.
- 30%** of teens say they understand how credit card interest and fees work.
- 36%** of teens say they know how to establish good credit.

4-A

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Top 10 Questions to Ask Before Signing on the Dotted Line

- Do I really need this item right now, or can I wait?
- Can I qualify for credit?
- What is the interest rate (APR) on this card?
- Are there additional fees?
- How much is the monthly payment, and when is it due?

4-B-1

1 | 2

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Unit 4 - Good Debt, Bad Debt: Using Credit Wisely

Top 10 Questions to Ask Before Signing on the Dotted Line

- Can I afford to pay the monthly payments?
- What will happen if I don't make the payments on time?
- What will be the extra cost of using credit?
- What will I have to give up to pay for it?
- All things considered, is using credit worth it for this purchase?

4-B-2

1 | 2

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The Language of Credit

- Credit:** amount of money or something of value loaned on trust with expectation it will be repaid later to lenders.
- Types of Credit**
 - Borrow up to a predetermined limit (i.e., credit card)
 - Borrow cash to be repaid by a specific date
 - Borrow money for a major purchase to be repaid in regular payments over time, typically monthly (i.e., car loan, home mortgage)

4-C-1

1 of 4

NEFE High School Financial Planning Program
Unit 4 - Good Debt, Bad Debt: Using Credit Wisely

The Language of Credit

- Debt:** entire amount of money you owe to lenders.
- APR (Annual Percentage Rate):** total cost to use credit in a year.
- Term:** how long you have to repay a loan, often expressed in months.
- Fees** are charged to use credit.
 - Examples: Annual Credit Card Fee, Loan Origination Fee, Over-the-Limit Fee

4-C-2

2 of 4

The Language of Credit

- **Credit History:** record of your behavior related to borrowing and repaying loans.
- **Credit Report:** detailed record of your personal credit and financial transactions.
- **Credit Score:** rating used by credit reporting companies to help lenders decide whether and/or how much credit can be extended to a borrower.



4-C-3

3 of 4



The Language of Credit

- **Universal Default:** allows a credit card company to increase your interest rate if you make just one late payment.
- **Bankruptcy:** legal process to get out of debt when you can no longer make all your required payments.



4-C-4

4 of 4



Types of Credit

Installment Credit

- Fixed payments
- Set period of time to repay
- Set or varying interest rates
- Car loans and home loans are typical examples.

Revolving Credit

- No stated payoff time
- Limit to credit
- Minimum monthly payments
- Interest rates vary or not
- Finance charges
- Credit cards most typical example



4-D



Sources of Credit

- Banks
- Credit Unions
- Department Stores
- Automobile Dealers
- Oil Companies (for gas stations)
- Federal Government (for student loans)
- Others?



4-E



WHEN YOU BUY “STUFF”

You bought “STUFF” with your credit card.
In fact, you bought \$500 worth of “STUFF” with your credit card.

Your APR is 18%.
You plan to pay \$10 a month to pay it off.

You will pay \$431 in interest

Final cost of your purchases = \$931.40

And it will take SEVEN YEARS and NINE MONTHS



4-F

1



How Long Will It Take???

You owe \$3,000.

APR = 18%

Payment: 4% of current balance

Finance Charge \$1715.69

Total cost of original
\$3,000 loan = \$4715.69

And it will
take
nearly
11 YEARS
to pay off!

After you've made the last payment, will
what you purchased still be around???



4-G

1



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The Cost of Using Credit

\$700 for a Game System
APR = 24%
Payment: 4% of current balance

Finance Charge \$550.04
Your Game System REALLY cost \$1,250.04

And it will take over 7 years to pay off!

After you've made the last payment, will your Game System still be around???

4-H 1

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The Cost of Using Credit

Interest Rate = 24%
Payment = 4% of Current Balance

BALANCE	TIME TO PAY OFF	INTEREST CHARGED	TOTAL COST
\$2,000	11 YEARS 6 MONTHS	\$1,850	\$3,850
\$6,000	16 YEARS 1 MONTH	\$5,850	\$11,850
\$10,000	18 YEARS 2 MONTHS	\$9,850	\$19,850

4-I 1 2 3

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Unit 4 – Good Debt, Bad Debt: Using Credit Wisely

The Cost of Using Credit

\$3,000 Charged to Credit Account
APR = 21%
Payment: 4% of current balance

Finance Charges \$2,220.57
Annual Credit Card Fee: \$65

You Owed \$3,000 but You Paid \$6,065+

Paying the minimum, it will take you 11 YEARS and 11 MONTHS to pay off your debt.

4-J 1

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Financial Consequences of Debt

- Could put you in a state of overspending and perpetual debt, where you get used to carrying a balance and paying extremely high interest rates.
- Could adversely affect your credit rating, making it harder to get loans when you really need them.

4-K-1 1 of 2

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Financial Consequences of Debt

What if you took the \$120 monthly payment in the last example and INVESTED \$120 a month for the 12 years it took to pay off the \$3,000 debt, and your investment got an 8% rate of return?

Instead of **\$6,000** paid out for \$3,000 worth of “stuff”, your \$120 monthly investments would amount to **\$28,799** in your pocket!

4-K-2 2 of 2

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The Four “Cs” of Credit

Collateral
Capital
Capacity
Character

4-L

How Credit Scores Are Determined

- **Your payment history**
 - Information about how you make your payments on credit cards, store accounts, car loans, finance companies, mortgages
 - Accounts in collection or past due, and how long past due
 - Information in public records, such as bankruptcy, judgments, liens, wage attachments or child support



4-M-1

1 | 2 | 3



How Credit Scores Are Determined

- **Your overall debt**
 - How much you owe on all your accounts
 - How much credit you have available to use
- **Your credit account history**
 - When you opened and used each of your accounts
 - How recently you applied for new credit
 - Recent good credit history following past payment problems



4-M-2

1 | 2 | 3



How Credit Scores Are Determined

- **Types of Credit**
 - The different types of credit accounts you have
 - The total number of accounts you have



4-M-3

1 | 2 | 3



Get and Keep a Good Score

- Make sure your credit report is accurate.
- Pay all your bills on time.
- Apply for credit only when you need it.
- Lower the balances on all your credit accounts.
- Pay off debt rather than moving it around.



4-N



Protect Yourself Against Inaccurate Credit Reports

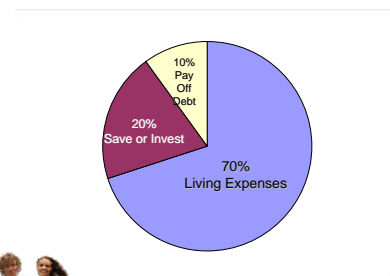
- Get a copy of your free credit reports from all credit rating agencies.
- Examine it thoroughly.
- If you find something that is incorrect, ask the agency to investigate the information.
- If that doesn't resolve the issue, you can attach a short statement to your credit report.



4-O



Rule of Thumb



4-P



Credit Cards

HOW TO USE A CREDIT CARD

- Swipe the credit card in the card reader, or give it to the clerk to swipe.
- Choose the “Credit” option.
- Sign the receipt.
- Keep and save your copy of the receipt to record later in order to keep track of what you have spent.





Biz Kid\$ Activity for Episode #115: Credit: The Good, The Bad, & The Ugly.” This same episode may also have the title “Using Your Credit—Crazy or Compelling?”

Review the show by going over the following points with the class:

You were introduced to some young entrepreneurs in the show who experienced using credit, but not all of them made smart decisions. There are consequences, positive and negative, when you borrow money.

We met **Monica** who manufactures cases for *iPods* through the company she started called “*i wear*”. She worked with an organization called “BUILD” to help launch her business. She learned to improve her presentation skills and business plan.

John, the real estate salesman, established a good reputation and a good credit score. He explained that once you have bad credit, it’s much more difficult to fix it.

Celia, the graphic designer, also worked with a micro business development group that gave her valuable tools and information to establish her business.

David, however, was a victim of his own poor choices regarding credit. He went over his dollar limit and had extra fees added, including late fees and a higher interest charge. He was paying \$2700 in finance charges and fees alone, in addition to the original amount he borrowed. He suggested that you cut up credit card offers that come in the mail! Learn from his mistakes!

Finally, **James** created a business called “*B-Loons Army*” with a good business plan and a good credit history. He also had the help of a micro business development company.

Having **good credit** means that the user has proven that he or she is someone to whom a financial institution would feel comfortable lending money. There are other advantages to having good credit, including getting lower interest rates on loans and establishing a reputation of being trustworthy.

Instructions:

You are going to participate in an activity that will help you determine the characteristics of a good borrower.

Divide the students into groups – give them 5 minutes to make of list of ways to build good credit. Ask each group to share an answer, go around until you cover all the answers. Use the flip chart to record the students’ answers and to add any key points they may have missed.

Biz Kid\$ Activity for Episode #115

Activity Answers: Ways to Build Good Credit

- Have a strong work history. This includes:
 - Holding a steady job.
 - Working consistently without periods of unemployment.
- Establish credit.
- Own a home.
- Have a strong bank account history. This includes:
 - Maintaining an adequate balance in a checking and/or savings account.
 - Paying back loans on time.
 - Paying back loans in full.
- Use credit cards to charge only what you can afford to pay.
- Use only a small amount of the credit you have been given.
- Pay all credit card bills in full and on time.
- Limit the number of credit cards that you have.
- Limit the number of requests for credit that are made in your name.