



Lesson 9: Give Credit Where Credit is Due

TOPIC: Credit and Debt

OVERVIEW:

As students gain additional understanding of borrowing and lending, analyzing the cost of borrowing becomes a critical skill to practice. In this lesson, learners demonstrate their understanding of **credit** by recognizing how to manage and damage credit, qualifications for a credit candidate, and how credit cards fit into the larger discussion on credit.

OBJECTIVES:

1. Understand how to build credit and avoid practices that may hurt credit
2. Identify the economic benefits of good credit
3. Discuss the consequences of debt

INDIVIDUAL HANDOUTS:

- Understanding Credit Anticipation Guide

GROUP HANDOUTS:

- Credit Vocabulary (station set)
- The Pros and Cons of Credit (station set)
- How to Build Good Credit (station set)
- Practices That Hurt Credit (station set)

TEACHER PRESENTATION SLIDES:

- none

ESSENTIAL QUESTIONS:

- What is credit?
- In what instances should you use credit?
- What are some strategies to maintain good credit?
- How does having good credit result in other positive benefits?

ASSESSMENT ACTIVITIES:

Pre-Assessment:

- **Handout:** Understanding Credit Anticipation Guide

Post-Assessment:

- **Handout:** Understanding Credit Anticipation Guide
- **Activity:** Letter to My Future Self

Time: 55 min

Supplies:

- Loose-leaf paper for *Letter to My Future Self*
- Access to the Internet (optional)

Preparation:

- Make copies of student handout and group handouts
- Set up individual or group computers with access to the Internet (optional)
- Print credit/debt crisis article
- Student grouping strategy for jigsaw activity

Glossary with key vocabulary 15

Instruction Steps

WARM UP

Understanding Credit Anticipation Guide

5 MINUTES

Provide students with the *Understanding Credit Anticipation Guide* student handout. Allow students a few minutes to fill it out under the “Before” column. Explain that students will return to their guide during the Group Exploration, as they learn more about credit, but this is ungraded in the “Before” column.

MONEY SMART TIP!

A debit card allows you to make purchases in real time by accessing the money in your savings, checking, or other on-demand accounts. A credit card allows you to use a loan to make purchases and pay back the loan within a specified amount of time.

See more at www.consumer.ftc.gov/articles/0332-credit-debit-and-charge-cards.

GUIDED EXPLORATION

Understanding Credit Mini-Lesson

10 MINUTES

Over the course of the lesson, students will learn all of the information they need to accurately complete the “After” section of their *Understanding Credit Anticipation Guide*.

To start, explain that, when you get a credit card, the bank is willing to loan you money up to the credit limit, say \$5,000. (When you apply for a credit card, issuers will determine your ability to handle debt by reviewing your application and credit report. They also determine the credit limit during this process.) In other words, you are borrowing money. If you choose to take a portion of that “loan” to purchase something, and you do not repay it in full by the statement due date, you will be charged **interest** (which is the cost of borrowing money).

So, let’s say you have a credit card with a 15% **annual percentage rate (APR)**, which is the fee you pay for borrowing money. Most credit cards compound interest on a daily basis, so you have to calculate how much interest you owe on a credit card daily.

To do this, divide 15% by 365 days in the year, which equals a daily interest rate of 0.041%. Then, let’s say you spent \$10,000 using your credit card. Most credit card companies allow a 21-day grace period before charging interest. If you cannot pay off your balance during that time period, you will begin to pay interest.

On the first day, you would multiply your \$10,000 credit card balance by the daily interest rate (.00041), and you would get \$4.10. On the second day, you’d multiply your \$10,004.10 balance by the daily interest rate (.00041), and you would get \$4.10 again, making your

total \$10,008.20. If you let your credit card compound over 30 days, you'd owe \$10,125.76. Over a year, you'd owe \$11,617.98.

Check students' understanding by asking:

- *What are the advantages of using a credit card?*
- *What are the disadvantages?*

Remind students that there are many ways to make a purchase, aside from using credit, such as using cash, debit, or installment loans.

MONEY SMART TIP!

Credit card agreements are required to explain the APR of each card, in addition to penalties and fees. Read the agreement to understand when you could pay these fees. You can read a general definition of key terms at www.consumerfinance.gov/data-research/credit-card-data/know-you-owe-credit-cards/credit-card-contract-definitions/.

Credit And Debt In The United States

10 MINUTES

Select (either from links or from an online news search) an informational text about credit and debt in the United States. Topics include student loans, low credit scores, and defaulting on loans.

After the class has read the article, discuss common problems with credit and debt in the United States. **Some broad questions include:**

- *What is the crisis here?*
- *What actions could individuals have taken to avert this crisis?*

GROUP EXPLORATION Understanding Credit Jigsaw Groups

20 MINUTES

Split students into four groups. Set up four stations, each with one of the following group handouts:

1. Credit Vocabulary
2. The Pros and Cons of Credit
3. How to Build Good Credit, and
4. Practices That Hurt Credit.

Tell students to take their anticipation guides to their stations.

In stations, students should learn more about their topic area. If they come across an answer that is on their **Understanding Credit Anticipation Guide**, they should write that answer in the "After" column with evidence to support their "After" answer. (For example: if the answer is false, what would make the statement true?) Explain that, eventually, they will be placed in a group with three other people from the other stations, so they must be able to explain the information that they are marking.

Once students are finished with their groups, they should be “jig-sawed” (regrouped) into a group with one member from each station. So, new groups should be composed of at least one member from ***Credit Vocabulary***, at least one member from ***The Pros and Cons of Credit***, at least one member from ***How to Build Good Credit***, and at least one member from ***Practices That Hurt Credit***.

In their groups, students should share and explain the correct answers that they logged in the “After” section of their ***Understanding Credit Anticipation Guide***. *By the end of this portion, all students should have the correct answers in the “After” column of their guide.*

Optional check for understanding questions:

- *What are some strategies to maintain good credit?*
- *What are the benefits of having good credit?*
- *What are the consequences of being in debt?*
- *When should you use credit?*

WRAP UP
Letter To My Future Self

10 MINUTES

Remind students that they have just learned information about credit and debt, but people in the United States continue to struggle under the weight of debt.

Ask students to draft a message to their future selves. Their message can be crafted as a letter, a series of texts or a list of tips and goals. Students should include financial tips about debt and credit and remind themselves about strategies to maintain good credit.

MONEY SMART TIP!

Do you want students to actually receive their letters from the future? “Future Me” allows students to compose an email and send it to themselves in the future. www.futureme.org

Extended Exploration

Note: Use the following ideas to extend financial literacy concepts throughout the school year within core content areas through English Language Arts, Math, Social Studies and Economics, and Technology activities, projects, and discussions. Duration of activities will vary.

ENGLISH LANGUAGE ARTS

Writing Prompts:

Who should be allowed to have a credit card? Do age, personal history, income, or employment matter? Develop criteria for who should be allowed to have a credit card and support each criterion.

Solve the problem. As you have learned, many Americans struggle with credit and debt. How can this problem be solved?

Additional Readings/Resources:

Credit, Loans, and Debt by the Federal Trade Commission: Articles on credit history and using credit.

www.consumer.gov/section/credit-loans-and-debt

Credit and Loans by the Federal Trade Commission: Articles on the impact of credit scores, free credit reports, and rights and responsibilities of owning a credit card

www.consumer.ftc.gov/topics/credit-and-loans

Credit Card Debt Explained by KQED News: A video explanation of how credit cards work and how credit card companies make money. (Time of video: 4:29 minutes)

www.youtube.com/watch?v=L5qlbISOAGA

MATH

Activity/Project Ideas:

Compare credit card statements. Using the same sample purchase, compare the cost of the purchase using each of the credit cards.

SOCIAL STUDIES AND ECONOMICS

Activity/Project Ideas:

In 2009, the U.S. federal government passed the Credit Card Accountability, Responsibility, and Disclosure (CARD) Act. Have students evaluate the changes made as a result of this act.

TECHNOLOGY

Online Games/Tools:

It Costs What? by the Educational Broadcast Corporation: A game that helps students understand credit cards and how four people can end up paying different amounts on the exact same thing.
www.thirteen.org/finance/games/itcostswhat.html

It All Adds Up by the Council for Economic Education: Online games teaching students about credit management.
www.italladdsup.org/

Celebrity Calamity! by Financial Entertainment: A game that helps students learn about credit and debt management by managing the finances of a clueless celebrity.
<http://financialentertainment.org/play/celebritycalamity.html>

Classroom activities from the Consumer Financial Protection Bureau (CFPB)

The CFPB has developed a set of classroom activities to help teachers develop and support the building blocks of financial capability in their students. Each activity is designed to be completed within a single class period and includes a teacher guide and supporting student material. Some specific activities that are relevant to this lesson include:

Analyzing credit card statements

Students conduct online research to become familiar with reading and analyzing credit card statements.
www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/analyzing-credit-card-statements/

Asking for a loan

Students deliver a persuasive monologue on why a family member should lend them money.
www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/asking-loan/

Being a responsible borrower

Students watch a role-play to learn about the behaviors of a responsible borrower and answer questions about borrowing.
www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/being-responsible-borrower/

Getting a credit card and using it wisely

Students conduct research to learn about credit cards and explore the effect that using a credit card can have on a person's credit score.
www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/getting-credit-card-and-using-it-wisely/

Telling the difference between loan myths and realities

Students analyze statements about loans and decide whether they're a myth or reality.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/telling-difference-between-loan-myths-and-realities/

Understanding credit scores

Students read an infographic and complete a vocabulary matching exercise to learn basic information about credit scores.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/understanding-credit-scores/

Answer Key

Student Handout 1:

Understanding Credit Anticipation Guide Answers 'After'

1. Credit cards are the only type of credit available.
False
2. One reason why people use credit is to help pay for an unexpected emergency expense.
True
3. One reason why people don't like using credit is that few businesses accept credit.
False
4. One way to build credit is to request your credit report once a month.
False
5. Credit reports include information on credit card accounts and student loans.
True
6. Credit cards allow you to miss several payments without penalties.
False
7. Negative credit information stays on your credit report for only two years.
False
8. When credit is used, a portion of your future income is spent/committed.
True



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CREDIT VOCABULARY

Use with *Understanding Credit Jigsaw* activity. One copy per group.

Credit: An agreement to provide goods, services, or money in exchange for future payments with interest by a specific date or according to a specific schedule. The use of someone else's money for a fee.

There are many types of credit, but the two most common types are:

- **Installment Loans:** A set amount of money lent to you for a specific purpose.
 - Student Loans
 - Auto Loans
 - Mortgage Loans
- **Revolving Credit:** A line of credit you can keep using after paying it off. You can make purchases with it as long as the balance stays under the credit limit, which can change over time. Credit cards are the most common type of revolving credit.

Credit Card: A plastic card that authorizes the purchase of goods and services in exchange for future payment with interest, according to a specific schedule.

Credit Report: A credit report contains information about your credit — and some bill repayment history — and the status of your credit accounts. This information includes how often you make your payments on time, how much credit you have, how much credit you have available, how much credit you are using, and whether a debt or bill collector is collecting on money you owe. Lenders use these reports to help them decide if they will loan you money and how much money it will cost you. The cost is usually reflected by the interest rates they will offer you. Credit reporting companies (also known as credit bureaus or consumer reporting agencies) compile these reports.

Debt: Something owed, usually measured in dollars.

Source: www.consumerfinance.gov/askcfpb/309/what-is-a-credit-report.html



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THE PROS & CONS OF CREDIT

Use with *Understanding Credit Jigsaw* activity. One copy per group.

Pros of Credit

▪ **Immediate Access to Money:**

Credit can help with an expensive, unexpected emergency and give you the flexibility to pay it off over time.

▪ **Security:** Lose cash, and it's gone. Lose a credit card and it can be cancelled. Also, if you report your stolen credit card promptly, you're protected against its unauthorized use.

▪ **Convenience:** Credit cards are accepted worldwide.

▪ **Rewards:** Many credit cards have rewards programs that earn you benefits such as free travel.

Cons of Credit

▪ **Interest:** Using credit means that you are borrowing money and you must return it with interest, if you don't repay by the due date.

▪ **Fees:** You may have to pay certain additional fees with some credit products, such as an annual fee.

▪ **Debt:** Often, as a result of late payments, many people find themselves sunk in credit card debt with no way out. Late fees, piling interest, and other charges make it harder and harder to get out of debt.

▪ **Overspending:** When you have credit, it is easy to overuse it. When you aren't exchanging actual money, it feels like you're not paying anything at all. Soon enough, the charges catch up and sink you in debt.



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HOW TO BUILD GOOD CREDIT

Use with *Understanding Credit Jigsaw* activity. One copy per group.

HOW TO BUILD GOOD CREDIT

Here are some tips to help you establish good credit:

- Pay your loans, bills, and other debts on time. This will show you are responsible for your finances.
- If you have a credit card, try to charge only what you can afford to pay off immediately or very soon.
- Review your credit report for errors.
- Think carefully before you take out new credit cards or loans. Multiple credit inquiries can lower your credit score.
- You can apply for a bank loan secured by the funds you have on deposit. You can also ask a friend or relative who has good enough credit to cosign a loan, which means that he or she shares the liability for the loan with you. Before you apply for credit, however, make sure you understand the terms.

Patience is important. It takes time to establish credit, to build a record of consistency in making payments that demonstrates your creditworthiness. And it is much better to go slowly and assemble a strong credit record than to apply for too many credit cards or a loan that is larger than you can handle. Remember that credit represents real money and has to be repaid with interest. Those are the keys to establishing good credit.

THE BENEFITS OF GOOD CREDIT

In general, the better your credit history and credit score:

- The better your chances are of getting a loan, including a credit card.
- The more likely you will be offered an attractive interest rate (this will save you money).

Credit reports and scores also can be considered when you apply for a job, an insurance policy or an apartment.

Sources: The FDIC, FTC, and the Federal Reserve Bank of Philadelphia



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PRACTICES THAT HURT CREDIT

Use with *Understanding Credit Jigsaw* activity. One copy per group.

PRACTICES THAT HURT CREDIT

When you borrow money, you will generally sign an agreement to repay the money you borrow (plus interest) according to a specific schedule.

Some of the ways that you can harm your credit include:

- Not repaying a loan on time as you agreed
- Not repaying other debts (such as phone or utility bills) on time
- Borrowing as much (or more) money on your credit card as your lender agreed to lend you (having an outstanding balance that is close the credit limit)
- Applying for a lot of credit over a short period of time

THE DRAWBACKS OF BAD CREDIT

If you have a poor credit history, you are more likely to:

- Not be approved for a loan or credit card
- If you are offered a loan, you will likely pay more money in interest
- Pay more money for insurance
- Have an application to rent an apartment be denied, or if it is approved, pay a larger security deposit

Sources: The FDIC, FTC, and the Federal Reserve Bank of Philadelphia



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UNDERSTANDING CREDIT ANTICIPATION GUIDE

Name: _____

Directions: Read the statement, then write T for TRUE or F for FALSE after each statement.

Credit Statement	Before	After
1. Credit cards are the only type of credit available.		
2. One reason why people use credit is to help pay for an unexpected emergency expense.		
3. One reason why people don't like using credit is that few businesses accept credit.		
4. One way to build credit is to request your credit report once a month.		
5. Credit reports include information on credit card accounts and student loans.		
6. Credit cards allow you to miss several payments without penalties.		
7. Negative credit information stays on your credit report for only two years.		
8. When credit is used, a portion of your future income is spent/committed.		