Credit is widely misunderstood and, perhaps even more to the point, widely misused.

- Author Unknown

Section V
Credit
Credit: Friend or Foe?

Families today do not spend much time together talking about such mundane matters as bills, credit, and loan repayment. One set of statistics says that many high school students graduate owing $5,000 in credit card debt, and from college with $30,000 in student loans.

This lesson is an introduction to money management and credit. Students will discuss the advantages and disadvantages of credit. The lesson provides guidelines to the use of credit and demonstrates that once credit is used it must be repaid. It includes activity sheets to illustrate the use of credit and its cost. The thrust of the lesson is to teach the concept that credit must be used with caution and it always has an opportunity cost to the borrower.
Credit: Friend or Foe?

NCSCOS Civics and Economics Objective(s):

7.05 Explain the impact of investment on human, capital, productive, and natural resources.

Warm-Up/Bell Ringer Activity:
Write on the board, “In your opinion, is using credit a positive or a negative thing? Why do you feel this way?”

Materials Needed:
“Notes on Credit”
“Advantages and Disadvantages of Credit” transparency
“Use of Credit” activity sheet
“The Questions That You Should Ask Yourself” transparency
“The Cost of Credit” activity sheet

Time/Pacing:
One class period

Link(s) to Prior Learning:
Students are to know the difference between a want and a need.

Purpose/Objective of this lesson:
Students will be able to discuss using and managing credit.

Teacher Input:
- Discussing the notes with students
- Assigning the project

Key Questions:
1. What is credit?
2. What are the advantages and disadvantages of credit?
3. When should credit be used?
4. How much does credit cost?
Strategies for Differentiation:
Students are to explore the different Annual Percentage Rate (APR) of five banks and search for the best rates for credit cards.

Class Activity:

Guided Practice

1. Discuss the warm-up questions to help students express their feelings about credit. Are there any reasons to be afraid of credit? When is credit a "good" thing?

2. Using the notes, the teacher defines "credit". Ask students if they have ever used credit? Ask students if they have ever asked their parents for a loan? When did they pay it back or did they? Explain to the students that this is an example of the use of credit.

3. Place the "Advantages and Disadvantages of Credit" transparency on the overhead projector. Discuss each aspect of the points.

4. Pass out activity sheet "Use of Credit".

5. Place transparency "The Questions That You Should Ask Yourself" on the overhead. Lead a discussion on the different questions. Ask the students whether they agree or disagree with each point and why.

Independent Practice/Homework:
Pass out the activity sheet "The Cost of Credit."

Continuous Assessment Tools/Strategies:
Evaluate students' responses to determine understanding.
Discussion
Review the results of student activity sheets.
Notes on Credit

Credit is a promise to pay later for goods or services purchased today. It is an amount of financial trust extended to you by a lender based on your ability and willingness to repay. People find obtaining credit easy but the continuing monthly repayment of principal and interest difficult. Credit should be used carefully, within the limits of your resources.

Advantages

1. **Immediate Possession** - Credit enables you to enjoy goods and services immediately that you might otherwise have had to postpone or do without.

2. **Flexibility** - Credit allows people to time their purchases, in order to take advantage of sale items or other bargains, even when their funds are low.

3. **Safety** - Credit cards provide a safe and convenient means for people to carry their purchasing power while traveling or shopping without carrying cash.

4. **Emergency Funds** - Credit gives people a cushion in an emergency (i.e., an automobile breakdown when money is needed for immediate repairs).

Disadvantages

1. **Overspending** - Sometimes credit cards and charge accounts make it too easy to spend money. Then, as debt increases, it is often difficult to make the necessary monthly payments.

2. **Higher Cost** - It costs more to buy on credit than to pay cash. Interest or other charges are often added to the cost of goods sold on credit, causing the final cost to be more than the original cost of the item.
3. **Impulse Buying** - Shoppers who buy on credit often ignore sales and special prices because they can buy what they want on credit rather than waiting to take advantage of money saving events.

**When should you use credit?**

Most Americans use credit in one form or another. About 80% of the adult population have credit cards. Most people buy their homes with a mortgage and about 60% of college students use loans to help pay tuition.

When you are deciding to use credit, there are some questions that you should ask yourself before you proceed:

1. Do I really need this item or can I wait?
2. What is the least amount that I have to borrow?
3. How much are the interest rate (APR) and other fees?
4. How much is the monthly payment and when is it due?
5. Can I afford the monthly payment?
6. What will happen if I do not make the payments on time?
7. What will be the extra cost of using credit and is it worth it?
8. What will I have to give up to pay for it?

*Credit must be used with Caution!*

It's not how much credit that you have, but how you handle it.

Credit is not free. Borrowing money has a price; it is called interest. When interest is added to the amount borrowed (principle), you spend more dollars over time than saving and paying cash for the item in the first place.
What does a lender want to know before they loan you money?

"Character, capacity and collateral"

1. Is the consumer a reliable person?    
   (Does not move often, has remained in the same job for a period of time)

2. Does the consumer have a steady income that is likely to continue into the future?

3. Does the consumer earn enough money to be able to pay back the loan?

4. Does the consumer have a good credit record (credit rating) in repaying of other loans and bills?

Credit terms

1. People who borrow are called debtors.

2. The people who loan money are called creditors.

3. Finance charges, is the amount that is paid over the original loan amount, which is the interest plus any other additional fees.

4. Annual Percentage Rate (APR) is the rate of interest that is paid every year on a loan for the use of the money. Federal law requires that all lenders use the same method of calculation so that consumers can "comparison" shop for credit.

5. Secured Credit is credit for which the consumer must put up some property of value (collateral) to cover the amount of the loan. Examples: Mortgages where the house is used to secure the loan or car loans where the car is the collateral.
6. Money that is loaned on nothing but the promise to repay in the future is called Unsecured Credit. Examples: Credit Cards.

7. Charging any amount above a legally set amount is called Usury.

How Can Creditors Legally Collect on Their Loans if You Fail to Repay the Money?

Under the Fair Debt Collections Practices Act, consumers are protected from abusive and unfair collection practices. Collectors are limited to reasonable times and places. Acts of harassment or abuse and misleading or false statements are prohibited.

The collectors might use the mail or phone calls in an attempt to recover their money. They are not allowed to call in the middle of the night or to call people at their place of employment to tell them about the debt.

If you made a secure loan, they can repossess the collateral. The creditor can sell the property and apply that amount to you loan. If that amount is below the amount of the loan the debtor is still responsible for the remainder of the loan.

As a last resort, the creditor can sue the debtor for the amount of the loan and court costs. If the creditor wins in court the court may order your wages garnished. That means that part of your pay goes directly to the creditor. The amount that can be garnished is no more than 25% of the debtor's take home pay according to federal law, but some states have different laws. Employers are prohibited from firing an employee as the result of a garnishment. The second order the court can make is called an attachment. Your bank could be forced to pay the loan straight out of your accounts without your permission. Another form of attachment is to seize your property, even if it was not put up as collateral, and sell it to satisfy the loan.
Use of Credit

1. Make a list of products or services that you, friends or family members have bought on credit.

2. What are the advantages and disadvantages of using credit to pay for:
   a. College or vocational school tuition?
   b. A car to get to work?
   c. A vacation?
   d. Clothing to wear to a formal dinner?
   e. Write some rules on when it is acceptable to use credit and when credit should not be used. (3 or more of each)
The Questions You Should Ask Yourself Before Using Credit
(Overhead Transparency)

1. Do I really need this item or can I wait?

2. What is the minimum amount of credit needed?

3. How much are the interest rate (APR) and other fees?

4. How much is the monthly payment and when is it due?

5. Can I afford the monthly payment?

6. What will happen if I do not make the payments on time?

7. What will be the extra cost of using credit and is it worth it?

8. What will I have to give up to pay for the item (opportunity cost)?
The Cost of Credit

Jamul, Amir and Sue each want to purchase a game player that costs $500 and finance it with credit. Using the information below, how much would the game player cost including finance charges?

Directions: Using the total amount spent, subtract the amount of the loan and that is the cost of credit.

I. Total Spent Cost of Credit
A. Jamul paid $45.00 a month for 12 months. _________ _________
B. Amir paid $12.00 a week for one year. _________ _________
C. Sue paid $25.00 a month for two years. _________ _________

Of the three loans, which one paid the most to borrow the $500 and which paid the least?

II. You want to borrow $1,000. Which will cost you more, paying twelve monthly payments of $92, or one payable in 36 months at $36 a month?

III. Are there any generalized conclusions that you can observe about:
   - the length of a loan?
   - the size of the payment?
   - the total amount a person pays for a loan?
Credit: Friend or Foe?
Day # 2

NCSCOS Civics and Economics Objective(s):
7.05 Explain the impact of investment on human, capital, productive and natural resources.

Warm-Up/Bell Ringer Activity:
Have students take out homework activity titled, “The Cost of Credit”. Discuss the homework in groups of three.

Materials Needed:
“Paying Off Debt” activity sheet
“Loan Officer” activity sheet
Rubric for grading brochure on credit

Time/Pacing:
One class period

Link(s) to Prior Learning:
Knowledge of the definition of credit, advantages and disadvantages and questions to ask before using credit

Purpose/Objective of this Lesson:
Students will be able to discuss the cost of credit and to understand the consequences of not maintaining payments.

Teacher Input:
Knowledge of the notes

Key Questions:
1. What are the requirements for credit?
2. What are the consequences of not paying off the loans?
Class Activity

Guided Practice:
1. Discuss the homework and how much credit costs.
2. Pass out activity sheet, "Paying Off Debt" and tell the students to complete it. Discuss the results in relation to information from the homework.
3. Using the notes, inform the students of the criteria for obtaining credit.

Independent Practice:
Have students get into groups of three and pass out to each group the activity sheet, "Loan Officer." Let the students draw conclusions and then share them with the class. If there are major disagreements, bring the students to consensus.

Guided Practice:
1. Review credit terms with students from the notes.
2. Using the notes inform the students of the different methods that lenders can use to recover their money.

Summary/Closure/Homework:
Assign students a project to create a brochure on credit that will be passed out to students at their school.

Each brochure must include information on:
- the definition of credit
- the advantages and disadvantages of credit
- the questions one should ask themselves before borrowing money
- the cost of credit
- the methods that can be used to collect on a "bad" debt

Teachers may create their own rubric to grade the brochure or use the sample rubric included at the end of this lesson.

Continuous Assessment Tools/Strategies:
Presentations
Depth of questions that students ask
Results of activity sheets
Student Activity

Name ____________________
Date_________ Class________

Paying Off Debt

Sammy has a $3,000 balance on a credit card with an 18% APR. His grandmother, who thought he was the cutest thing, left him $3,000 in her will. Should Sammy pay off his debt or invest in the booming stock market?

Examine the following chart, and then answer the questions that follow.

<table>
<thead>
<tr>
<th></th>
<th>Stocks at 12% per year</th>
<th>Credit Card at 18% per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning</td>
<td>$3,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Year 1</td>
<td>$3,360</td>
<td>$3,540</td>
</tr>
<tr>
<td>Year 2</td>
<td>$5,287</td>
<td>$6,863</td>
</tr>
<tr>
<td>Year 10</td>
<td>$9,317</td>
<td>$15,701</td>
</tr>
</tbody>
</table>

1. After five years, how much greater would that original $3,000 debt be?

2. How much would your $3,000 have earned in the stock market after ten years?

3. Which would you advise Sammy to do - invest the money or pay off his credit card? Explain your advice to Sammy and why you are making that recommendation.
Loan Officer

You are the loan officer at a local bank. In each of the following cases, individuals are seeking to borrow money from the bank. Based on the information provided, evaluate each applicant and decide whether each will receive the loan. Explain the reasons you granted or denied the applicant the loan.

Case # 1

Donna is a single mother of two children. Her only source of income consists of public assistance payments of $650 a month and $120 per month from the pension from her late husband. She wants to purchase new kitchen appliances totaling $989. She lives in subsidized housing. Her share of the rent and other expenses total $575 a month.

Case # 2

Bruce is a bricklayer who is always looking for work. Due to weather and other factors, he is seasonally unemployed. He currently brings home $950 a month. He owes $200 a month for his car, $175 a month for the High Definition big screen TV, and $300 a month for rent and has no money saved in the bank. He wants to borrow $4,000 to purchase a motorcycle.

Case # 3

Susan, 22, is in her second year of college. She has excellent grades in school and plans to attend medical school after graduation. Until recently her parents paid her bills, but are now unable to and she is on her own. She is seeking $10,000 dollars to finish college and pay her living expenses. She has never borrowed any money before but plans to repay her loan when she graduates from medical school.
# Rubric for Grading Brochure on Credit

<table>
<thead>
<tr>
<th>Category</th>
<th>20 points</th>
<th>15 points</th>
<th>10 points</th>
<th>5 points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Content and Accuracy</strong></td>
<td>All the facts are correct</td>
<td>90% of the facts are correct</td>
<td>80% of the facts are correct</td>
<td>Fewer than 80% are correct</td>
</tr>
<tr>
<td><strong>Grammar</strong></td>
<td>No grammatical mistakes</td>
<td>Few (1 to 3) grammatical mistakes</td>
<td>Several (4 to 7) grammatical mistakes</td>
<td>Many (over 8) grammatical mistakes</td>
</tr>
<tr>
<td><strong>Organization/Attractiveness</strong></td>
<td>Well organized and exceptionally attractive</td>
<td>Well organized and attractive</td>
<td>Well organized</td>
<td>Confusing to reader</td>
</tr>
<tr>
<td><strong>Graphics/Pictures</strong></td>
<td>Graphics go well and good mix between text and graphics</td>
<td>Graphics go well, but too many</td>
<td>Graphics good, but too few so it seems “text-heavy”</td>
<td>Graphics do not go with the text, or appear randomly chosen</td>
</tr>
<tr>
<td><strong>Vocabulary</strong></td>
<td>Used all new vocabulary and defined them correctly</td>
<td>Used a few of the new vocabulary and defined correctly</td>
<td>Tried to use some of the new vocabulary, but defined several incorrectly</td>
<td>Used no new vocabulary</td>
</tr>
</tbody>
</table>
Read the Fine Print

This unit will introduce students to credit, credit card offers, and the cost of credit. Students will compare credit card applications between two companies. Students will also analyze the benefits and consequences of using credit as a method of payment.

Good credit, bad credit, damaged credit, and repaired credit. No matter how we define it, credit is a big part of our lives. Credit can be a valuable friend, but it can also be a vindictive foe. Credit is widely misunderstood by students and adults.

In addition to learning about credit cards, students will review the three C’s of Credit (Character, Capital, and Capacity to pay). Students will complete a sample credit application and interview an adult who has established credit. Through these real-life experiences/assignments, students will learn that credit is not free money, it should be managed wisely, and it can be beneficial when used responsibly.
Read the Fine Print

NCSCOS Civics and Economics Objective(s):
8.09 Describe the role of money in trading, borrowing, and investing.

Warm-Up/Bell Ringer Activities:
Write the following questions on the board. “Do you know a friend or family member that uses credit? If so, what did he or she buy using credit?”

Materials Needed:
Sample credit card application
“Credit Card” Comparison activity sheet
“Credit Interview” activity sheet for homework
Teacher compiled examples of credit card offers (not included)

Time/Pacing:
One block period, or two 45-minute periods

The lesson can be extended by another 45-minute period or one-half block for the credit card comparison and credit interview discussion.

Link(s) to Prior Learning:
Students will be asked to recall the concepts opportunity cost and trade-off in this lesson.

Purpose/Objective of this lesson:
Using this lesson, students will be able to define types of credit, why credit is used, and how credit is obtained.

Teacher Input:
The teacher will review the "Three C's" of credit. The teacher will ask students how each of the C's (character, capital, and capacity to pay) could determine if a citizen is given credit with a financial institution.
Key Questions:
1. What are the Three C's of Credit?
2. What is the difference between short and long term credit?
3. How are opportunity cost and trade-off a part of making decisions about credit?

Class Activity

Guided Practice:
The teacher should show an example (make an overhead if possible) of a sample credit card offer. The teacher will point out the different fees associated with the card, the APR (annual percentage rate), and what is required to open the credit card account.

Independent Practice:
Students will then fill out a sample credit application. To ensure that no student is uncomfortable giving personal information, encourage the students to make up the personal information.

Summary/Closure:
Review the Three C’s of Credit by highlighting which parts of a credit application asks the citizen's character, capital, and capacity to pay.

Homework:
After the lesson on day one, hand out the sheet, “Read the Fine Print Credit Interview.” Emphasize that students should ask only a parent, guardian, or other adult who is willing to talk about their personal history with credit to participate. Students will share their answers in class the next day. Names of the adult interviewed will not be used during the discussion.

Oral Questions:
- Why would a person use long versus short-term credit?
- What types of purchases would they make with each type of credit?
- How can you identify the three C’s of credit on a credit application?
Strategies for Differentiation/Extension:
The lesson can be continued the next day by having students share their findings from the credit interviews with adults. Chart the class findings on a bar graph. If time permits, have students compare two credit card offers. A comparison sheet is provided. Many banks will provide blank credit card offers to be used in class. If the teacher collects personal offers, make sure all personal information has been removed.
The Three C's of Credit

Character includes name, address, phone number, social security number, and date of birth.

Capital includes yearly salary and bank account information. If you have a parent or spouse co-sign for the credit with you, their information will also be included.

Capacity to pay includes other forms of credit you already have. You will be asked to determine how much you currently owe. (i.e., other credit cards, home, car, and student loans that you still owe money on).
Sample Application for Credit

Last Name _______________ First Name _______________ Initial __________

Date of Birth _______________ Social Security Number _______- _____-_________

Place of Birth (city, state) __________________________________________________

Home Address
_______________________________________________________________________

How long have you lived at this address? ________________________________

If less than three years give your prior address:
_______________________________________________________________________

Employer ___________________ Occupation ________________________________

Company Address _______________________________________________________

Salary______________ Years of Employment ________________________________

Previous Employer_______________________________________________________

Applicant is not required to provide the information in this section unless a co-signer is also applying for the credit. The co-signer’s personal information including credit-worthiness will also be considered.

Co-Singer Last Name _____________ First Name_____________ Initial __________

Date of Birth _______________ Social Security Number _____- _____-_________

Place of Birth (city, state) ________________________________________________

Home Address
_______________________________________________________________________

How long have you lived at this address? ________________________________

If less than three years give your prior address:
_______________________________________________________________________

Employer ___________________ Occupation ________________________________

Company Address _______________________________________________________

Salary______________ Years of Employment ________________________________
Previous Employer __________________________________________________________

Name and Address of relative not living with you:
________________________________________________________
________________________________________________________

List all sources of income (salary from all jobs)
Applicant ___________________________ Co-applicant __________________________

*Note: income from alimony, child support, and social security does not need to be revealed unless the applicant or co-applicant wants the income to be considered to qualify for credit.

Current Creditors: Please list all credit cards, mortgages, and loans you currently owe.

1. ___________________________ Balance
2. ___________________________ Balance
3. ___________________________ Balance
4. ___________________________ Balance
5. ___________________________ Balance
6. ___________________________ Balance

Checking Account Number ________________________________________________
Bank___________________________________________________________________
Savings Account Number _________________________________________________
Bank___________________________________________________________________

The above information is true and correct and the applicant acknowledges and agrees to the contract and to pay all indebtedness incurred in accordance with such contracts.
Applicant Signature ______________________________________________________
Date ___________________________________________________________________

Co-Applicant Signature ___________________________________________________
Date ___________________________________________________________________
### Credit Card Comparison

**Directions:** Using the two examples of credit card applications your teacher gives you, answer the questions below of the two credit card offers given. Be prepared to discuss in class along with your credit interview.

<table>
<thead>
<tr>
<th>Name of Card #1 (what bank)</th>
<th>Name of Card #2 (what bank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application Fee</td>
<td>Application Fee</td>
</tr>
<tr>
<td>Annual Percentage Rate</td>
<td>Annual Percentage Rate</td>
</tr>
<tr>
<td>Grace Period</td>
<td>Grace Period</td>
</tr>
<tr>
<td>Balance Transfer Fee</td>
<td>Balance Transfer Fee</td>
</tr>
<tr>
<td>Late Payment Fee</td>
<td>Late Payment Fee</td>
</tr>
<tr>
<td>Over the Limit Fee</td>
<td>Over the Limit Fee</td>
</tr>
<tr>
<td>Cash Advance Fee</td>
<td>Cash Advance Fee</td>
</tr>
<tr>
<td>Service provided by the financial institution (points, mileage, discounts)</td>
<td>Service provided by the financial institution (points, mileage, discounts)</td>
</tr>
<tr>
<td>Is there an introductory rate? For how long?</td>
<td>Is there an introductory rate? For how long?</td>
</tr>
</tbody>
</table>

Which of the two cards would you pick? What were the benefits and drawbacks of each card? What is required to apply for the card?
Credit Interview

Directions: Using the following questions, select and interview a person who has established credit (including credit cards, car loans, home mortgages, second mortgages/home equity loans). Make sure the person you interview is comfortable talking to you about using credit. Be prepared to share your findings with the class.

1. What is your age?

2. What is your occupation?

3. What forms of credit do you use regularly?

4. What types of loans do you currently have?

5. How many credit cards do you currently have?

6. Have you ever “paid off” a credit card and closed the account?

7. What age were you when you first received a credit card?
8. What motivated you to get the card?

9. What are some examples of goods/services you have purchased on credit?

10. What credit purchases have taken the longest to pay off?

11. Would you use credit to purchase this item again? Why or why not?

12. Have you ever opened a credit card or line of credit at a store to get a discount or free item (just for opening the account)?

13. How does using credit make you feel?

14. How concerned are you when you owe money?

15. What types of opportunity cost/trade-off do you make by choosing to pay later with credit as opposed to paying now with cash?