

YOUR FINANCIAL ROAD MAP: WHERE DO YOU WANT TO GO?

DAY: 7

TITLE: YOUR FINANCIAL ROAD MAP – Focus on Credit

TARGET COMPETENCY: Understand the complexities of using credit cards and the impact they can have on your financial security.

OBJECTIVES:

- Introduction to the complexity and challenges of credit card rules
- Exposure to potential “tricks and traps” of using credit and debit cards
- Insight to role of the credit card companies (financial services)
- Insight to the role of government -- policymakers and agencies – during the financial crisis of 2009
- Learn the origins of the new Consumer Financial Protection Bureau
- Gain awareness of credit card industry and become more informed credit users

HANDOUTS/MATERIAL:

- Internet connection
- Screen/projector
- Frontline video, *The Card Game*
<http://www.pbs.org/wgbh/pages/frontline/creditcards/>
- Handout: Video Vocabulary (key terms from the video to cover during classroom discussion)

LESSON SUMMARY:

As credit card companies face rising public anger, new regulation from Washington and staggering new rates of default and bankruptcy, FRONTLINE investigates the future of the massive consumer loan industry and its impact on a fragile national economy. *The Card Game* shows interviews with industry insiders, lobbyists, politicians and consumer advocates as they square off over attempts to reform the way the industry has done business for decades.

LESSON OUTLINE:

MINUTES	CONTENT
	Note: This video can be shown before the credit lessons as an introduction to the challenges and complexities of the credit card industry, or at the end of the lessons as a summarizing piece. The video discusses the often conflicting worlds of the “soundness of the banking industry” vs. consumer protections, which could serve as a logical transition to the Consumer Protection lessons.
3	INTRO: The Card Game - Banks, Credit and The American Consumer Ask the students if they have a credit card or a debit card in their own names. If

	<p>so, do they know what their current APR is -- and, can anyone tell you what APR stands for? Tell the students that you'll be watching a PBS FRONTLINE video about the credit card industry. Encourage them to jot down unfamiliar words or financial terms, so that you can discuss them today and in the next two lessons.</p>
	<p>Optional: Chapter 1 - The Wizards of Consumer Lending Meet the credit card innovators who had a gift for gimmicks that were too good to be true. (7:31, but two minutes of intro, so start at 2:10 into the video). This segment may be skipped if time constraints exist.</p>
10	<p>Watch Chapter 2 - Tricks and Traps That Fooled Consumers (7:52) During the decades of deregulation, cardholders were on their own in figuring out the hidden fees and service charges.</p> <p>Discussion Questions:</p> <ul style="list-style-type: none"> • One of the speakers referred to the banking and credit industry as the "Wild West." What did he mean by that? Was that good or bad for consumers? <p>Vocabulary:</p> <ul style="list-style-type: none"> • Late Fee • Over-the-Limit Fee • Disclosure • Universal Default
13	<p>Chapter 3 – The Economic Collapse Triggers Reform (8:37) New rules on credit cards end the most abusive practices. But before they take effect, banks squeeze in higher rates, fees.</p> <p>Discussion Questions:</p> <ul style="list-style-type: none"> • What precipitated the collapse of the credit markets? • New legislation was passed in 2009 to limit some of the abusive practices of the credit card industry. Who were some of the supporters of the legislation; name some who were against it? Explain views from both perspectives – do you think one side had a stronger case? <p>Vocabulary:</p> <ul style="list-style-type: none"> • Refinancing (Refi's) • Mortgage • Bankruptcy
10	<p>Chapter 4 - Consumers Pay the Price (5:59) In a tough economy, banks struggle with card losses, so they lower credit lines, raise interest rates, and fees.</p>

	<p>Discussion Questions:</p> <ul style="list-style-type: none"> • After the new legislation was passed, banks raised interest rates on cards (ex. of the Nordstrom shopper) and lowered lines of credit (ex. contractor). Do you think took advantage for the consumer? Why or why not. <p>Vocabulary:</p> <ul style="list-style-type: none"> • Interest Rate • Annual Percentage Rate (APR) • Line of Credit
15	<p>Chapter 5 – Debit Cards - Regulators' Next Target (13:47) More popular than credit cards, they too have sneaky fee traps. Banks see them as a way to compete with payday lenders.</p> <p>Discussion Questions:</p> <ul style="list-style-type: none"> • Payday Lenders are outlawed in 15 states and for military personnel. One of the speakers said that Payday Lenders created a debt trap? Do you agree or disagree? Why? • Banks say they provide Overdraft Protection as a benefit to the consumer. Do you consider it a benefit? Why or why not? • What role does consumer responsibility in these issues? <p>Vocabulary:</p> <ul style="list-style-type: none"> • Debit Card • Payday Lender • Overdraft Protection • Non-Contractual • Courtesy • Truth in Lending Act
15	<p>Chapter 6 - What's Ahead for Consumers? A New Agency is Proposed (9:37) It's already harder to get credit; and banks likely will stay two steps ahead of new regulations.</p> <ul style="list-style-type: none"> • Who is Timothy Geithner? He argued that the government wasn't doing enough to protect consumers. Others disagreed, saying that the "safety and soundness" of the banking industry should come first. Who do you agree with, and why? • Why is it more difficult to get a credit card? Do you think that is a good change or a bad one? <p>Vocabulary:</p> <ul style="list-style-type: none"> • Federal Reserve Payday Lender • FDIC Non-Contractual • Ofc of the Controller of the Currency (OCC)

	<ul style="list-style-type: none"> • Consumer Financial Protection Agency (CFPA)
5	<p>Assessment</p> <p>Briefly answer these questions:</p> <ol style="list-style-type: none"> 1. Who is Timothy Geithner? (A: Secretary of the Treasury) 2. What is Universal Default? (A: <i>Universal default happens when a lender enforces default terms (usually imposed on borrowers who have missed payments or exceed balances) on a borrower that has defaulted with another lender. New credit legislation, which went into effect February 22, 2010, prevents credit card issuers from implementing universal default by limiting their ability to raise interest rates on pre-existing balances.</i>) 3. Is a Payday Lender the same as a bank or a credit union? (A: No) 4. Are debit cards covered under the new credit card legislation? (A: No) 5. The new credit card legislation imposes a cap on interest rates and fees. T/F? (A: False)

HOMEWORK:

- Any of the discussion questions could be turned into an essay/research exercise.
- Find and write the definitions to the vocabulary discussed today.

ONLINE RESOURCES:

PBS- Frontline video, *The Card Game*

<http://www.pbs.org/wgbh/pages/frontline/creditcards/>

The website contains useful tools and resources to assist in teaching this unit and to encourage students to look further into the issues.

Seven Things to Know about “The Card Game”

<http://www.pbs.org/wgbh/pages/frontline/creditcards/seven/>

Background and Analysis

<http://www.pbs.org/wgbh/pages/frontline/creditcards/themes/>

Frontline highlights a number as a follow-up to issues raised in the video. This collection of videos, research, and commentary includes topics such as *Pay Day Loan – A Primer*, *The Military’s War on Debt*, and *Why Not Cap Interest Rates*, and more.

A Pew Charitable Trust study: *Two Steps Forward: After the Credit CARD Act, Credit Cards Are Safer and More Transparent — But Challenges Remain*

http://www.pewtrusts.org/our_work_report_detail.aspx?id=60075

Government Accountability Office

<http://www.gao.gov/products/GAO-06-929>

A Government Accountability Office study on credit card industry practices (9/12/2006)

This report may be a little dated, but it is informative.

Federal Deposit Insurance Corporation

<http://www.fdic.gov/bank/analytical/overdraft/>

A 2006 FDIC study on overdrafts fees.

Center for Responsible Lending

<http://www.responsiblelending.org/overdraft-loans/>

A consumer advocacy group provides information and resources on overdrafts.