

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

DAY: 8

TITLE: YOUR FINANCIAL ROAD MAP – Focus on Credit

**TARGET COMPETENCY:** Select strategies to use in handling credit and managing debt.

### OBJECTIVES:

- Define credit
- Understand the cost of credit
- Learn about online tools to help determine those costs
- Outline the process for applying for credit
- Compare the advantages and disadvantages of using credit

### HANDOUTS/MATERIAL:

- NEFE Unit 4 — Using Credit Wisely
  - Student Guide (pg. 41-52)
  - NEFE PPT – Unit 4,
- Handout: CNN Money Article, *“American Express Offered a Credit Card to My 3-year-old.”*
- Handout: Sample Loan Application (from instructor’s manual)
- Various credit applications you’ve picked up around town (department stores, gas stations, etc). Provide enough for each student (samples available in instructor’s manual).
- Internet access – for online loan calculator

### LESSON SUMMARY:

Teenagers (and many adults!) see credit as route to instant gratification, getting what they want now and figuring out how to pay for it later. They may not realize that credit is a double-edged sword—a value tool when handled wisely, but a debt trap when handled poorly. The key to understanding credit is learning about the various costs of using it: interest rates, fees, penalties, and even opportunity cost. These costs are critical factors in making good decisions about whether using credit is appropriate or not.

### LESSON OUTLINE:

MINUTES	CONTENT
	<p><b>Note:</b> The Credit Lesson is broken into several days:</p> <ul style="list-style-type: none"><li>• The basics of credit – some vocabulary, how to get it, pros and cons</li><li>• Understanding credit cards and your credit score – reading statements, reviewing new changes in credit laws, learning about credit scores: why important, where and how to get yours, how to keep it strong, and how to respond to inaccurate credit scores.</li><li>• Debt – the dark side of credit. Strategies for avoiding debt, understanding the impact of too much debt, what to do if you are there.</li></ul>

<p><b>5</b></p>	<p><b>Intro – What is Credit?</b></p> <p>Discuss the What do You Think activity (p. 42 of Student Guide). Facilitate a brief discussion:</p> <ul style="list-style-type: none"> <li>• Did any of these facts surprise you?</li> <li>• How do teen get into debt?</li> <li>• Only one-third of the teens surveyed said they know how to establish good credit. Do you think this is import information to know before using credit cards or applying for loans? Explain your answer.</li> </ul> <p>Show PPT slide 4-A for answers and to lead into a presentation about credit.</p>
<p><b>15</b></p>	<p><b>Credit and Financial Planning</b></p> <p>Use the PPT slides (4B–4E) to facilitate a discussion about how borrowing affects a financial plan, future goals, and the opportunity cost of using credits.</p> <p><b>Activity:</b> (Individually or in pairs) Distribute sample loan applications to your students. Ideally, you will have real applications, but there are also samples in teacher’s manual). Ask them to review the application and determine what kinds of information the credit company is requesting. You may want to ask them to fill out the application as much as possible.</p> <p>Questions:</p> <ul style="list-style-type: none"> <li>• What kinds of information do you require?</li> <li>• Why do you think they need all of this info?</li> <li>• Was it easy/difficult to fill out – do you know where to find answers to their questions (acct. #, other cc #, your SSN, etc)</li> <li>• Has anyone filled out an application before? Want to share your experience?</li> </ul> <p><b>Homework:</b> Exercise 4B – Scavenger Hunt for Credit (pg. 45 in SG). Ask students to do this activity at home.</p> <p>Also, underscore that while credit applications are often sent without knowing a person’s income or financial history. Ask students if any of them have received credit card applications with promises of a \$10K credit line? Assign this article as homework (or read together in class) to help illustrate the “business of making money” behind these credit offers.</p> <p><b>Homework:</b> Read this article from CNN Money: <i>American Express Offered a Credit Card to My 3-year-old.</i> <a href="http://money.cnn.com/2011/01/13/pf/credit_cards_for_kids/index.htm">http://money.cnn.com/2011/01/13/pf/credit_cards_for_kids/index.htm</a></p>

<p><b>10</b></p>	<p><b>Cost of Credit</b></p> <p>Show PPT Slides (4F- 4J) to facilitate a discussion about the advantages and disadvantages of using credit.</p> <p>Article from Bankrate.com: <i>Best Ways to Establish Credit</i>  <a href="http://www.bankrate.com/finance/credit-cards/best-ways-to-establish-credit.aspx">http://www.bankrate.com/finance/credit-cards/best-ways-to-establish-credit.aspx</a></p> <p>Stricter standards during this credit crisis have made it tougher to get approved for new credit cards. This article discusses the pros and cons of three different types of cards that help establish and build credit:</p> <ol style="list-style-type: none"> <li>1. Secured cards.</li> <li>2. Retail and gas cards.</li> <li>3. Prepaid cards.</li> </ol>
<p><b>10</b></p>	<p><b>Cost of Credit</b></p> <p>Underscore the impact of different credit/loan factors. Review how to calculate interest using the simple interest formula: <math>Interest = Principal \times Rate \times Time</math>. See Impact of Different Loan Actors (worksheet in the supplement materials). Understanding basic math is an important part of financial management skills, but there are many online calculators that can help with the numbers! For example, <a href="http://www.practicalmoneyskills.org">www.practicalmoneyskills.org</a> has a host of different calculators that can help with your financial planning needs.</p> <p>Use this loan calculator to fill in the worksheet together (or assign homework):  <a href="http://www.practicalmoneyskills.com/calculators/loans.php?calcCategory=loans">http://www.practicalmoneyskills.com/calculators/loans.php?calcCategory=loans</a></p>
<p><b>5</b></p>	<p><b>Rewards and Risk of Credit</b></p> <p>Use this exercise to follow your slide presentation.</p> <p><b>Exercise 4C:</b> Complete in class. Ask for volunteers to share answers.</p>

<b>5</b>	<b>Assessment</b>  Determine if these statements are True or False: <ul style="list-style-type: none"><li>• A car loan is an example of an installment loan.</li><li>• Credit cards have no payoff deadline.</li><li>• The Grace Period on a loan is the amount of time you have before you start accumulating interest.</li><li>• The Annual Percentage Rate (APR) tells you the cost of the loan per year as a percentage of the amount borrowed.</li><li>• A Universal Default clause means that a credit card company can increase your interest rate if you make just one late payment – even if it is with a different creditor.</li></ul>
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**HOMEWORK:**

Assign reading on credit scores = NEFE Student Guide pp. 47-51, or a handout.

**Read this article from CNN Money:**

*American Express Offered a Credit Card to My 3-year-old.*

[http://money.cnn.com/2011/01/13/pf/credit\\_cards\\_for\\_kids/index.htm](http://money.cnn.com/2011/01/13/pf/credit_cards_for_kids/index.htm)

**ADDITIONAL RESOURCES:**

**Practical Money Skills – Loan Calculators**

<http://www.practicalmoneyskills.com/calculators/loans.php?calcCategory=loans>

This is a great source for all your online calculator needs.

- MOCK SHOP Activity: You may want to create activities that have your students “mock shop” for items and then determine how much the item will cost over time using different interest rates if they don’t pay their balance in full each month.

**Article from Bankrate.com:**

*Best Ways to Establish Credit*

<http://www.bankrate.com/finance/credit-cards/best-ways-to-establish-credit.aspx>

**Article from CNN Money:**

*American Express Offered a Credit Card to My 3-year-old*

[http://money.cnn.com/2011/01/13/pf/credit\\_cards\\_for\\_kids/index.htm](http://money.cnn.com/2011/01/13/pf/credit_cards_for_kids/index.htm)

**Selecting a Credit Card Online** (Classroom exercise using Google Docs)

[http://www.pbs.org/your-life-your-money/more/facilitatorguide\\_ch3\\_techlesson.php](http://www.pbs.org/your-life-your-money/more/facilitatorguide_ch3_techlesson.php)

**Federal Reserve Bank – Consumer’s Guide to Credit**

<http://www.federalreserve.gov/creditcard/>

Provide high-quality, downloadable information to help you:

- Understand the terms and fees of your credit card offer.
- Learn more about the new features of your monthly statement.
- Get an estimate of how long it will take you to pay off your credit card balance
- Glossary of credit card terms