



THE MONEY CIRCLE

THEME TWO: SIGNIFICANCE OF LEARNING, EARNING AND SPENDING ON PERSONAL FINANCIAL WELL-BEING

LESSON TITLE:

Theme 2, Lesson 2: Credit: Friend or Foe?

Lesson Description:

This lesson will help students evaluate spending and credit use, as well as factors involved with creditworthiness. It will also highlight important aspects to consider when making decisions about spending and credit. Students will identify effective techniques for their personal finances and learn ways to avoid pitfalls associated with misuse of credit.

Grade Level: 9-12

Key Concepts: Spending, decision-making, credit, credit report, credit score, credit history, credit rights

Objectives: Students will be able to:

1. Explain credit rights, credit reports and how to use and protect credit
2. Discuss the importance of a good credit history
3. Evaluate the costs and benefits of using credit
4. Identify key ideas associated with using credit wisely

Time Required: 50 - 60 minutes

Materials:

- 8 x 11.5 paper; one per student
- Visual 1
- Visual 1 Answer Key
- Visual 2: picture of a \$100 bill
- Flipchart or whiteboard
- Credit Reports and Credit Scores, available online at <http://www.federalreserve.gov/creditreports/>; one per student
- Handout 1; one per student
- How to Establish, Use and Protect Credit, available online at <http://www.philadelphiafed.org/consumer-resources/publications/establish-use-and-protect-credit.cfm>; one per student
- Do You Know Your Credit Rights, available online at <http://www.philadelphiafed.org/consumer-resources/publications/know-your-credit-rights.cfm>; one per student

- What Your Credit Report Says About You, available online at <http://www.philadelphiafed.org/consumer-resources/publications/what-your-credit-report-says.cfm>; one per student

Procedures:

1. Distribute the 8 x 11.5 paper to each student and ask students to write a "T" for true on one side and an "F" for false on the other side.
2. Walk through Visual 1, reading each statement aloud and ask students to hold up the "T" or "F" for each statement according to their own opinion.
3. Review correct answers and explanations using the Visual 1 Answer Key.
4. Show Visual 2 and ask the class to share how they would use this \$100 if it were theirs.

Teacher Note: *As the students are responding, be aware of students who indicate they would save or donate their \$100. This is why the question is worded with the word "use."*

5. Use the information provided to create a chart of Spending Patterns on flip chart paper, a white board, smart board, etc., with Spending in one column, Saving/Investing in another column and Donating in a third. Add a tally mark to the appropriate column based on student responses. Summarize results using ratios, such as 18 students out of 25 would choose to spend their money, while three would donate and four would save or invest.
6. Distribute a copy of Credit Reports and Credit Scores to each student or allow them to access it online. Ask students to read it on their own.
7. Distribute Handout 1 and ask students to complete their list of the three Most Important Things (MITs) they learned from the reading.

Teacher Note: Some key points students might list include: a credit report is a record of your credit history; a credit report is important because lenders may use it to assess your credit worthiness; the three major credit bureaus are Equifax, Experian and TransUnion; I can get a free copy of my credit report from www.annualcreditreport.com; information generally stays on my credit report for seven years; a credit score is a number that reflects information in my credit report; etc.

8. Pair the students and invite them to share results from Handout 1 with each other. Ask each pair to share one MIT from their discussion with the class.
9. Divide the class into three groups and give each group copies of one of the following brochures or website links:
 - How to Establish, Use and Protect Credit
 - Do You Know Your Credit Rights?
 - What Your Credit Report Says About You
10. Have the students formulate essential questions as a group to guide them through the review of the brochure or website. The questions could be related to the use of credit, how to establish or protect credit, and/or credit reports. Give an example of a possible essential question, such as "What credit rights do I have?" or "What are key ways to build credit?"

Teacher Note: Students can read these resources independently in a computer lab or outside of class as alternatives.

11. Invite a student from each of the three groups to write at least two of their essential questions on the white board to remind them of the direction of their group's assigned research.
12. When the research is completed, ask a representative from each group to share answers to their group's essential questions with the class and any other key details they learned from the research.

Closure:

13. Ask students to determine three to five points that consumers should consider regarding use of credit. (Answers will vary, but could include checking your credit report regularly; being aware of your credit history; using credit wisely, etc.)
14. Record their suggestions on the white board, smartboard, etc.

Assessment:

15. Ask each student to design a tri-fold brochure titled Credit: Friend or Foe that details costs of credit on one panel, benefits of credit on another panel and a short statement about whether credit is a "friend" or "foe" in their opinion. Answers may vary but could include the following:

Costs:

- Credit is a debt that has to be repaid.
- The cost of credit, interest, can be higher if a consumer has no credit history or a bad credit history.
- Information on your credit report can affect you for seven or more years.
- Your credit standing can impact your ability to be hired for a job, even if the position is unrelated.

Benefits:

- Credit can enable consumers to acquire large-scale items like a house or business that they don't have money for right now.
- Every consumer is entitled to a free credit report annually from each of the three credit reporting agencies.
- Credit access is not limited based on a person's sex, marital status, color, race, religion, national origin, age, etc.

Extension Activity 1:

16. Encourage students to record their spending habits over the next several weeks/months, including how much they save.

Extension Activity 2:

17. Ask each student to design a one-page flier to distribute to other students in the school, parents or in their community of Top Ten Tips for Using Credit Wisely.

Teacher Note: Students can use software applications such as PowerPoint, Adobe Acrobat, Prezi, etc.

18. They may rename the flier as long as the overall goal is to inform others on best practices to approach spending and credit decisions in their personal lives.

National Voluntary Economic Content Standards:

- Standard 2 - Decision-making: Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Many choices involve doing a little more or a little less of something: few choices are “all or nothing” decisions.

National Standards for Financial Literacy:

- Standard 4, Using Credit: Lenders make credit decisions based in part on consumer payment history. Credit bureaus record borrowers’ credit and payment histories and provide that information to lenders in credit reports.
- Standard 4, Using Credit: Lenders can pay to receive a borrower’s credit score from a credit bureau. A credit score is a number based on information in a credit report and assesses a person’s credit risk.
- Standard 4, Using Credit: In addition to assessing a person’s credit risk, credit reports and scores may be requested and used by employers in hiring decisions, landlords in deciding whether to rent apartments, and insurance companies in charging premiums.
- Standard 4, Using Credit: Failure to repay a loan has significant consequences for borrowers such as negative entries on their credit report, repossession of property (collateral), garnishment of wages, and the inability to obtain loans in the future.
- Standard 4, Using Credit: Consumers who have difficulty repaying debt can seek assistance through credit counseling services and by negotiating directly with creditors.
- Standard 4, Using Credit: Consumers who use credit should be aware of laws that are in place to protect them. These include requirements to provide full disclosure of credit terms such as APR and fees, as well as protection against discrimination and abusive marketing or collection practices.

Jump\$tart National Personal Finance Standards:

- Standard 2, Financial Responsibility and Decision-Making: Find and evaluate financial information from a variety of sources.
- Standard 1, Credit and Debt: Identify the costs and benefits of various types of credit.
- Standard 1, Credit and Debt: Explain the purpose of a credit record and identify borrowers’ credit report rights.
- Standard 1, Credit and Debt: Describe ways to avoid or correct debt problems.

Common Core Standards:

Reading Informational Text:

- Key Ideas and Details:
 - CCSS.ELA-Literacy.RI.9-10.2 Determine a central idea of a text and analyze its development over the course of the text, including how it emerges and is shaped and refined by specific details; provide an objective summary of the text.
 - CCSS.ELA-Literacy.RI.11-12.2 Determine two or more central ideas of a text and analyze their development over the course of the text, including how they interact and build on one another to provide a complex analysis; provide an objective summary of the text.

Writing:

- Production and Distribution of Writing:
 - CCSS.ELA-Literacy.W.9-10.4 Produce clear and coherent writing in which the development, organization and style are appropriate to task, purpose and audience. (Grade-specific expectations for writing types are defined in standards 1-3 above.)
 - CCSS.ELA-Literacy.W.9-10.6 Use technology, including the Internet, to produce, publish and update individual or shared writing products, taking advantage of technology’s capacity to link to other information and to display information flexibly and dynamically. (Extension Activity only)
 - CCSS.ELA-Literacy.W.11-12.4 Produce clear and coherent writing in which the development, organization and style are appropriate to task, purpose and audience. (Grade-specific expectations for writing types are defined in standards 1-3 above.)
 - CCSS.ELA-Literacy.W.11-12.6 Use technology, including the Internet, to produce, publish and update individual or shared writing products in response to ongoing feedback, including new arguments or information. (Extension Activity only)

WHAT DO YOU KNOW ABOUT SPENDING AND CREDIT?

Decide if the following statements are true or false. If you believe the statement is true, hold up the "T"; if you believe the statement is false, hold up the "F".

- 1.** Your credit report history includes information about late or missed payments.
- 2.** A common reason to deny someone credit is the number of credit cards opened in his/her name.
- 3.** A charge card is the same thing as a credit card.
- 4.** Credit scores are calculated based on information in your credit report and a score of 780 is considered good.
- 5.** Your credit report influences whether you are able to get certain jobs.
- 6.** The Federal Reserve Bank approves all credit card purchases.

WHAT DO YOU KNOW ABOUT SPENDING AND CREDIT? ANSWER KEY

Decide if the following statements are true or false. If you believe the statement is true, hold up the "T"; if you believe the statement is false, hold up the "F".

- 1.** Your credit report history includes information about late or missed payments.
True: all your credit history information, good and bad, remains on your credit report for seven years, including late and missed payments.
- 2.** A common reason to deny someone credit is the number of credit cards opened in his/her name.
False: the most common reasons people are turned down when they apply for credit are:

 - *Too little time in current job or at current residence*
 - *Too much outstanding debt*
 - *Unreasonable purpose for requesting credit*
 - *Limited credit experience*
 - *Foreclosure or repossession*
 - *Delinquent past or present credit obligations*
- 3.** A charge card is the same thing as a credit card.
False: a charge card is similar to a credit card except that the monthly balance must be paid in full on the due date and cannot be carried over.
- 4.** Credit scores are calculated based on information in your credit report and a score of 780 is considered good.
True: credit scores range from 350 - 850 (FICO) and scores above 760 tend to get the best (lowest) interest rates. The higher the score, the lower the perceived risk to the lender.
- 5.** Your credit report influences whether you are able to get certain jobs.
True: it is extremely important to protect your credit rating by making loan and bill payments on time and by not taking on more debt than you can handle.
- 6.** The Federal Reserve Bank approves all credit card purchases.
False: in 1978, Congress passed the Electronic Funds Transfer Act, directing the Federal Reserve to develop a legal framework for identifying rights and responsibilities of consumers and financial institutions in the use of EFT. In this way the Federal Reserve protects the consumer but does not approve all credit card transactions.

ONE HUNDRED DOLLAR BILL



MOST IMPORTANT THINGS LEARNED FROM CREDIT REPORTS AND CREDIT SCORES

Directions: After reading the text, list the three MITs that you learned about credit.

1. _____

2. _____

3. _____

Share your MITs with a partner and collectively choose one MIT to share with the class.