

CREDIT BASICS



Advanced Level



www.takechargetoday.arizona.edu

RECOMMENDED GRADE LEVELS	AVERAGE TIME TO COMPLETE	EACH LESSON PLAN IS DESIGNED AND CONTINUALLY EVALUATED "BY EDUCATORS, FOR EDUCATORS." THANK YOU TO THE FOLLOWING EDUCATORS FOR DEVELOPING COMPONENTS OF THIS LESSON PLAN.
10-12	<p>Anticipatory Set & Facilitation: 75 minutes</p> <p>Conclusion/Assessment Options: 20-75 minutes</p> <p><i>Time does not include the vocabulary activity or potential modifications.</i></p>	<ul style="list-style-type: none"> ▪ Tracey Newman, Family and Consumer Sciences Educator, Ste. Genevieve, Missouri ▪ Michelle Hiscock, Albion College, Michigan ▪ Donna Burrill, Director of Business, Technology, and Career Education, Brockton, Massachusetts ▪ Leo A. MacNeil, HarborOne Credit Union, Brockton, Massachusetts

NATIONAL STANDARDS	LESSON PLAN OBJECTIVES
<p>The curriculum is aligned to the following national standards:</p> <ul style="list-style-type: none"> ▪ National Standards for Financial Literacy ▪ American Association of Family and Consumer Sciences ▪ Council for Economic Education ▪ National Business Education ▪ National Jump\$tart ▪ Common Core English Language Arts 	<p>Upon completion of this lesson, participants will be able to:</p> <ul style="list-style-type: none"> ▪ Compare different types of credit ▪ Analyze strategies for responsible credit use ▪ Identify the major steps involved with obtaining credit ▪ Recommend how to choose credit terms that best fit particular needs

MATERIALS		
MATERIALS PROVIDED IN THIS LESSON PLAN	MATERIALS SPECIFIC TO THIS LESSON PLAN BUT AVAILABLE IN A SEPARATE DOWNLOAD	MATERIALS TO ACQUIRE SEPARATELY DEPENDING ON OPTIONS TAUGHT
<ul style="list-style-type: none"> ▪ Alternative Lending Hazards 2.6.2.A1 ▪ Can They Handle the Debt 2.6.2.A2 ▪ Which is the Best Deal 2.6.2.A3 ▪ Credit Basics 2.6.2.A4 ▪ Types of Alternative Credit Planning Sheet 2.6.2.A5 ▪ Types of Alternative Credit Visual Display Rubric 2.6.2.B1 ▪ Credit Basics Vocabulary List 2.6.2.E1 ▪ Big Bling Credit Card Agreement and Disclosure 2.6.2.E2 ▪ Credit Basics Information Sheet 2.6.2.F1 ▪ Credit Basics Note Taking Guide 2.6.2.L1 	<ul style="list-style-type: none"> ▪ Credit Basics PowerPoint Presentation 2.6.2.G1 ▪ Spending and Borrowing Unit Multiple Choice Test Bank and Answer Key 2.6.0.M1 & C1 	<ul style="list-style-type: none"> ▪ Computer or other means to play songs with a credit theme ▪ 1 die per participant ▪ Internet access

RESOURCES

EXTERNAL RESOURCES

External resources referenced in this lesson plan:

- Bankrate Financial Calculator: www.bankrate.com/calculators/credit-cards
- Center for Responsible Lending: www.responsiblelending.org
- Consumer Financial Protection Bureau: www.consumerfinance.gov
- Federal Trade Commission: <http://ftc.gov/>

Articles:

- Consumer Reports Investigation: www.consumerreports.org/cro/money/shopping/rentacenter/overview/index.htm
- Office of Fair Trading, *Consumer Contracts*, “The economics and psychology of consumer contracts,” February 2011: www.oft.gov.uk/shared_of/market-studies/consumercontracts/oft1312.pdf
- Consumer Federal Protection Bureau’s “Know Before You Owe” credit card database: www.consumerfinance.gov/credit-cards/agreements/
- “Consumer Credit Rose in November on U.S. Auto, Student Loans,” Kasia Klimasinska, *Bloomberg*, January 8, 2013: www.bloomberg.com/news/2013-01-08/consumer-credit-rose-in-november-on-u-s-auto-student-loans-1-.html
- “Consumer lending sees steady growth,” Amy Loddington, *financialreporter*, January 10, 2013: www.financialreporter.co.uk/view.asp?ID=11702
- “Consumer credit rises for fourth straight month in November,” reporting by Jason Lange, editing by Chizu Nomiya, Reuters, January 8, 2013: www.reuters.com/article/2013/01/08/us-usa-economy-credit-idUSBRE9070XS20130108

TAKE CHARGE TODAY RESOURCES

Similar lesson plan at a different level:

- None available

Optional lesson plan resources:

- Vocabulary Reinforcement Activities Active Learning Tool 3.0.36
- Technology Integration Options Active Learning Tool 3.0.50
- Integrating Music Active Learning Tool 3.0.49
- Financial Statistics Puzzle Active Learning Tool 3.0.4
- Honk if You Like Bumper Stickers Active Learning Tool 3.0.8.
- News Interview Active Learning Tool 3.0.32

CONTENT

EDUCATOR MATERIALS

- Materials to support educators when preparing to teach this lesson plan are available on the Take Charge Today website.

PARTICIPANT READING

- Credit Basics Information Sheet 2.6.2.F1

OPTIONAL ADVANCE INSTRUCTION

This lesson is designed to be taught as a stand-alone lesson. However, background content knowledge from the following lesson plans is directly related to this lesson and may be helpful for participants.

- Credit Reports and Scores 2.6.1
- This lesson introduces concepts that may be further explored using the Understanding Credit Cards 2.6.3 and Major Expenditures: Housing, Transportation and Food 2.6.7 lesson plans.

LESSON FACILITATION

PREPARE

Visual indicators to help prepare the lesson

INSTRUCT

Instructions to conduct the lesson facilitation

CUSTOMIZE

Potential modifications to lesson facilitation

VOCABULARY ACTIVITY

Alphabet Brainstorming



Approximate time: 20-30 minutes prior to instruction

Materials to prepare:

- *Vocabulary Reinforcement Activities Active Learning Tool 3.0.36*
 - 1 *Alphabet Brainstorming 3.0.36.A1* per participant
- Optional: *Credit Basics Information Sheet 2.6.2.F1* per participant.

This activity is designed to encourage thinking about prior credit knowledge that may or may not be accurate, with the opportunity to then discuss misperceptions during the activity and lesson instruction.

1. Provide each participant with an *Alphabet Brainstorming* handout from the *Vocabulary Reinforcement Activities Active Learning Tool 3.0.36*.
2. Divide participants into groups of 2-3.
3. Ask each group to think of one word related to credit that starts with each letter of the alphabet. Consider providing them with the *Credit Basics Information Sheet 2.6.2.F1* to prompt thinking.
4. Have the groups define each word in their own words.
5. Optional: As a class, create a word wall by writing each letter of the alphabet on the board and have groups share what words they identified.



Simplify the activity by having each group brainstorm 5-10 letters.



Conduct the activity as a class electronically using a graphic organizer or brainstorming /discussion tool. Reference the *Technology Integration Options Active Learning Tool 3.0.50* for instructions.

ANTICIPATORY SET OPTIONS

There are two anticipatory set option provided for this lesson.

1. Option 1: Analyze Lyrics to Multiple Songs
2. Option 2: Financial Statistics Puzzle

Option 1: Analyze Lyrics to Multiple Songs



Approximate time: 15-30 minutes depending on the number of songs used

Materials to prepare:

- *Integrating Music Active Learning Tool 3.0.49*
 - 1 *Analyze that Tune! 3.0.49.A1*
- Songs with a credit theme (reference the *Integrating Music Active Learning Tool 3.0.49* for instructions to create a free, online play list). Examples include:
 - Money by Flying Lizards
 - I Want to Be Rich by Calloway
 - Mud on the Tires by Brad Paisley
 - You Can't Always Get What You Want by The Rolling Stones

1. Complete the Analyze that Tune activity – facilitation option 2 in the *Integrating Music Active Learning Tool 3.0.49*.



It may be necessary to play the songs more than once.

Consider giving participants a handout with the song lyrics.

Option 2: Financial Statistics Puzzles



Approximate time: 15 minutes

Materials to prepare for anticipatory set option 2:

- *Financial Statistics Puzzles Active Learning Tool 3.0.4*
 - Includes statistics
- 1 piece of colored paper per statistic used

1. Conduct the activity as directed in the *Financial Statistics Puzzles Active Learning Tool 3.0.4*.
 - a. Participants work together to create a puzzle that has a financial statistic on it and discuss the implication that statistic has on individuals and families.

Discuss the feelings that can arise from debt including the impact of debt on well-being.

RECOMMENDED FACILITATION

PowerPoint Presentation



Approximate time: 60 minutes

Materials to prepare:

- *Credit Basics PowerPoint Presentation 2.6.2.G1*
- 1 *Alternative Lending Hazards 2.6.2.A1* per participant
- 1 die per participant
- 1 *Big Bling Credit Card Agreement and Disclosure 2.6.2.E2* per participant

Present the *Credit Basics PowerPoint Presentation 2.6.2.G1*.

Part 1: Manage Credit Responsibly

1. Slide 2: Your Present Self Impacts Your Future Self
 - a. Remind participants that when you use credit you receive money, goods or services in exchange for your promise to pay back a definite sum of money at a future date.
 - b. When borrowing, individuals are spending their future income because they are committing to making payments for a specified amount of time to pay back the loan.
2. Slide 3: Credit Sources
 - a. Give examples of different sources of credit.
 - b. Have participants brainstorm which credit sources typically provide the most favorable terms.
 - i. If an individual has a positive credit history, they will typically receive better credit terms from a depository institution than an alternative credit source.
 - ii. The best credit source will also depend on the type of loan. For example, it is better to finance an automobile with an automobile loan from a depository institution or automobile dealership than using a credit card.
3. Slide 4: When You Borrow You Are Spending Future Income
 - a. When credit is paid back, it is typically done so in smaller payments which is an advantage to credit. However, the lender typically charges interest for that convenience.
 - b. Although the automobile was \$10,000 the total Toby paid back over the lifetime of the loan was \$11,280.96 because of interest paid to

the lender.

4. Slide 5: Credit Can Be...
 - a. Reinforce that credit is a tool, and can be beneficial if used responsibly. By using credit wisely, you can build positive credit history and qualify for lower interest loans and credit.
 - b. However, if not used wisely, credit can quickly become a source of stress.
5. Slide 6: Managing Credit Responsibly: Evaluate the Purpose
 - a. Credit can provide long-term benefits such as the opportunity to earn a higher income as a result of investing in human capital.
 - b. Credit may allow individuals to make large purchases, such as an automobile, that allows them to get to and from work.
 - c. Having a credit card will allow an individual to make online purchases more securely and provide a source of open-end credit in case of emergency.
 - d. However, individuals should always evaluate if the credit is funding a need or a want.
 - e. Even if the purpose of credit provides long-term benefits, individuals should only use credit if the terms are favorable.
6. Slide 7: Managing Credit Responsibly: Consider Your Options
 - a. By using money in savings or waiting to purchase the item, individuals are delaying gratification. However, they are also not spending their future income by not being committed to a contract. They also are not paying more for the item by avoiding interest and fees.
7. Slide 8: Managing Credit Responsibly: Evaluate the Contract
 - a. Individuals must read contracts closely, including the fine print and completely understand their responsibilities for the life of the loan.
 - b. Individuals should not only consider if they can manage the terms of the loan today, but also in the future, especially if their financial situation changes as a result of less income, starting a family, etc.
8. Slide 9: Amount You Borrow
 - a. Identify that when individuals are considering a loan they should consider if they can afford it. A general rule of thumb is that the total loan should be less than 20% of annual net income and the monthly payment should be less than 10% of monthly net income.
 - b. Ask participants why individuals should limit their debt.
 - i. By limiting the amount of debt individuals have as contractual expenses, they have greater financial flexibility for building their net worth and handling emergencies.

Part 2: Types of Credit

9. Slides 10-11: Closed-End Credit
 - a. The repayment terms includes information like the interest rate, monthly payment and total number of payments.
 - b. Stress that with Toby’s automobile installment loan he signed a contract agreeing to pay \$313.36 per month. Monthly, he must pay a minimum of \$313.36 but could pay more.
10. Slides 12-13: Open-End Credit
 - a. An advantage to open-end credit is that the borrower does not have

Have participants create “rules of thumb” that can help them decide when accessing credit is responsible and when it is not. Illustrate these rules on a bumper sticker using the *Honk if You Like Bumper Stickers Active Learning Tool* 3.0.8.

to apply for credit each time credit is used.

- b. It is different than closed-end credit because while the payments are typically due monthly, the amount paid may be unequal. Typically a minimum amount is due each month.
- c. Secured credit cards are a type of credit card secured by a deposit account owned by the cardholder. The cardholder usually must deposit between 100% and 200% of the total amount of credit desired. A retail store credit card is credit given to a customer by a retailer for the payment of purchases. Retail credit can be granted either through outside credit cards such as Visa, MasterCard, and American Express or through retailer-generated credit cards.
 - i. Credit cards are explored in-depth in the *Understanding a Credit Card* 2.6.3 lesson plan.
- d. Ask participants what type of credit Toby had.
 - i. Closed-end because it was an automobile loan with a set number of monthly payments.
- e. Whitney charged \$200 to her credit card with a 13% interest rate. She has a \$20 minimum payment. Assuming Whitney does not make any additional charges to the credit card, she has many options for paying back the \$200 (calculations from Bankrate).
 - i. Ideally, she would pay the full \$200.
 - ii. She could make 6 payments of \$34.61 paying a total of \$7.66 in interest.
 - iii. Or, she could make monthly payments for any amount (as long as the minimum was met). The exact time necessary to pay back the loan and total interest paid depends on the monthly payment amount. In this example, she has been paying for 6 months and still has not paid back the loan. If she were to pay only the \$20 minimum payment it would take 11 months to pay off the loan and she would have paid \$20 in interest.

11. Slide 14: Alternative Credit

- a. Stress that alternative credit often has higher interest rate and higher fees.

12. Slide 15: Types of Alternative Credit: Payday Loan

- a. Describe how the business of payday lenders focuses on short-term loans that individuals often have a difficult time paying off. If an individual took a loan out for \$350, they may pay \$60 in fees and would receive \$290 immediately in cash. Then, on the agreed upon date, which is usually payday, the lender would want to deposit the check or withdraw the money. If the borrower does not have money in their depository institution account, they will pay bounced check fees and possibly face legal action by lender. Or, an individual will pay another \$60 to the lender to keep the loan outstanding. Or, the individual will take out a new \$350 loan to pay back the first one but once again pay \$60 in fees. Regardless, they are paying the lender \$60 fees (and possibly more) each payday until the loan can be paid back in full.



13. Slide 16: Alternative Lending Hazard

- a. Give each participant an *Alternative Lending Hazard 2.6.2.A1* worksheet and a die.
- b. Read the overview, directions and scenario aloud. Allow time for participants to play the game and determine the cost of Mario's \$300 payday loan after seven pay periods. If participants roll a 1 and pay off the payday loan within the first few pay periods, instruct them to take out another \$300 payday loan and continue playing.
- c. Discuss the activity. Possible questions include:
 - i. How much did participants pay for Mario total?
 - ii. If Mario could not pay back the original loan until April, ask participants to speculate how he handled his other car payments that were due in February and March?

14. Slide 17: Types of Alternative Credit: Rent-To-Own

- a. Share the example. Stress that while the borrower had \$39.99 weekly payments that may have been affordable, he/she paid a total of \$4,158.96 for a TV valued at \$1,890.
 - i. This example is from a Consumer Reports Investigation article. The article URL is in the External Resources Section of this lesson.
- b. Ask participants what are alternative options.
 - i. Purchase a less expensive TV immediately from savings.
 - ii. Save the \$39.99 weekly payment until she could purchase the TV.

15. Slide 18: Types of Alternative Credit: Title and Pawn Loan

- a. The cash provided for a title or pawn loan is based upon the anticipated value of the item.
- b. The borrower must meet the terms of the agreement (time frame, interest paid, etc.) to get their item back or the borrower will keep the item.
- c. Ask participants what are alternative options
 - i. A loan from a depository institution.

16. Slide 19: Types of Alternative Credit: Refund Anticipation Loan

- a. If a borrower's refund was less than the loan amount, they still owe the lender the difference.

Part 3: Shopping for Credit

17. Slide 20: How to Obtain Credit

- a. Stress that the exact process depends on the type of lender and credit.
- b. Personal information usually includes items like name, address, Social Security number.
- c. Credit requested is the purpose of the money borrowed, total requested, length of loan, etc.
- d. Your ability to repay will be evaluated by asking questions about your income, other liabilities and checking your credit report and score.
- e. Ask participants what types of loans typically advertise no credit checks and why.
 - i. Alternative credit loans that target people with a poor credit

Have participants identify alternative loan sources in their community.

history.

18. Slide 21: Shopping for Credit

- a. Credit scoring models recognize that a person may want to shop around to find the best credit terms for them. Therefore, multiple inquiries for the same type of loan, like a mortgage, are counted as a single inquiry if conducted within any 14-day period. This minimizes or eliminates any impact on a credit score.

19. Slide 22: Shopping for Credit: Evaluate the Contract Carefully

- a. Reading a credit contract is extremely important. Individuals should read the fine print and ask themselves several questions.
- b. Stress the importance of using annual interest rates. Some lenders may advertise a low monthly rate, such as 3% monthly but this is actually 36% annually.



20. Slide 23: Evaluate a Credit Contract

- a. Pass out one *Big Bling Credit Card Agreement and Disclosure 2.6.2.E2* to each participant.
- b. Allow participants one minute to read the disclosure. After a minute is up, whether participants have finished or not, ask if they would sign to get the bonus miles.
 - i. Why a minute? Most consumers don't even commit that much time before signing a credit agreement. "In most cases, consumers do not read contracts, because they cannot challenge it, think the information is not useful or readable, are committed to the purchase, or feel social pressure not to read." (Office of Fair Trading, *Consumer Contracts*, "The economics and psychology of consumer contracts," February 2011).
- c. Ask participants to read the contract again and circle items that may have jumped out to them as red flags such as unfamiliar terms, complex language, etc. Discuss.
- d. Ask them to forecast how complicated language might impact a consumer during a high-pressure sales interaction.
 - i. It might cause the consumer to feel uninformed; it could confuse them; it might make the sales clerk seem more knowledgeable; would make it easier to hide important lending details that might cause a consumer to decide against the credit; etc.
- e. Ask participants to underline the terms of credit. Discuss.
 - i. What is the annual interest rate?
 - 1. 2.99% for the first three months and then 29.99% which is applied to the amount borrowed before and after the introductory period.
 - ii. Are there fees? If so, what are they?
 - 1. Minimum monthly payment of interest calculated (.025%) plus 3% of outstanding balances.
 - iii. What are the consequences of missed or late payment?
 - 1. \$10 weekly fee if minimum payment not made.
 - iv. Is there anything else in the contract they need to learn more about?







Additional credit card offers are available at the Consumer Federal Protection Bureau's "Know Before You Owe" credit card database.





<ol style="list-style-type: none"> 1. 10,000 frequent flier miles may only be booked on airlines pre-approved by lender. 2. The airline may not be convenient for the borrower to use. 3. Maximum credit line is \$5,000 with a 2% fee if this is exceeded. 4. Automatically provided a cash advance of \$2,000. 5. Lender can add additional conditions at their discretion. <p>f. Is this a loan contract they would sign? Why or why not?</p> <ol style="list-style-type: none"> i. No, for a variety of reasons including: <ol style="list-style-type: none"> 1. The interest rates are extremely high 2. The cash advance automatically provided and expensive regardless of need 3. The lender can add additional conditions at their discretion <p>21. Slide 24: You are Responsible for Your Present Self and Future Self.</p> <ol style="list-style-type: none"> a. Discuss ways individuals can be smart credit consumers today to protect their financial future. 	<p>The <i>Credit Basics Note Taking Guide</i> 2.6.2.L1 is provided but not included as part of the recommended facilitation instructions or approximate time.</p>
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CONCLUSION OPTIONS
There are three conclusion options provided for this lesson.

1. Option 1: News Interview Activity
2. Option 2: Can They Handle the Debt?
3. Option 3: Which is the Best Deal?

<p style="text-align: center;"><u>Option 1: News Interview Activity</u></p> <p> <u>Approximate time:</u> 30 minutes</p> <p><u>Materials to prepare:</u></p> <ul style="list-style-type: none"> ▪ <i>News Interview Active Learning Tool</i> 3.0.32 ▪ Current news article per group of 2 <ul style="list-style-type: none"> ○ Articles are suggested in the External Resources section of this lesson. ▪ Index cards ▪ Optional: Fake microphones ▪ Optional: Costumes <ol style="list-style-type: none"> 1. Conduct the News Interview activity. <ol style="list-style-type: none"> a. The News Interview activity is used to introduce media and reading into a family finance course. In this activity, participants will evaluate a current news article and then present the article in a television news interview format. 	<p>Use key words like “consumer credit lending” to find current news stories using online search engines.</p> 
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<p style="text-align: center;"><u>Option 2: Can They Handle the Debt?</u></p> <p> <u>Approximate time:</u> 20 minutes</p> <p><u>Materials to prepare :</u></p> <ul style="list-style-type: none"> ▪ 1 <i>Can They Handle the Debt?</i> 2.6.2.A2 per participant <ol style="list-style-type: none"> 1. Complete the <i>Can they Handle the Debt?</i> 2.6.2.A2 worksheet as directed. 	
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<p align="center"><u>Option 3: Which is the Best Deal?</u></p> <p> <u>Approximate time:</u> 20 minutes <u>Materials to prepare:</u></p> <ul style="list-style-type: none"> ▪ 1 <i>Which is the Best Deal?</i> 2.6.2.A3 per participant <p>1. Complete the <i>Which is the Best Deal?</i> 2.6.2.A3 worksheet as directed.</p>	
<p>ASSESSMENT OPTIONS There are two assessment options provided for this lesson.</p> <ol style="list-style-type: none"> 1. Option 1: Reinforcement Worksheet 2. Option 2: Types of Alternative Credit Education 	
<p align="center"><u>Option 1: Reinforcement Worksheet</u></p> <p> <u>Approximate time:</u> 20 minutes <u>Materials to prepare:</u></p> <ul style="list-style-type: none"> ▪ 1 <i>Credit Basics</i> 2.6.2.A4 per participant <p>1. Complete the <i>Credit Basics</i> 2.6.2.A4 reinforcement worksheet.</p>	
<p align="center"><u>Option 2: Types of Alternative Credit Education</u></p> <p> <u>Approximate time:</u> 60 minutes <u>Materials to prepare:</u></p> <ul style="list-style-type: none"> ▪ 1 <i>Types of Alternative Credit Planning Sheet</i> 2.6.2.A5 per participant ▪ 1 <i>Types of Alternative Credit Visual Display Rubric</i> 2.6.2.B1 per participant ▪ Internet access <ol style="list-style-type: none"> 1. Assign each participant (or let them select) a type of Alternative Credit to research and create a visual display to educate others. 2. Provide each participant with a <i>Types of Alternative Credit Planning Sheet</i> 2.6.2.A5 to guide their research. Their visual display must address all of the questions on the planning sheet. When conducting their research, they should use at least two reputable sources of information. <ol style="list-style-type: none"> a. Examples of reputable sources of information include: <ol style="list-style-type: none"> i. Investopedia ii. Center for Responsible Lending iii. Consumer Financial Protection Bureau iv. Federal Trade Commission 3. Upon completing the research, participants will create a visual display. The visual display may be created in a variety of formats including: <ol style="list-style-type: none"> a. <i>Technology Integration Options Active Learning Tool</i> 3.0.50 lesson plan has several web 2.0 tools. Reference posters/collages or videos. b. Poster 4. Provide each participant with a <i>Types of Alternative Credit Visual Display Rubric</i> 2.6.2.B1 rubric for list of requirements to prepare their presentation. 	<p align="center">  </p> <p>Consider having participants work in small groups.</p> <p>Display the posters. Consider having participants conduct short presentations to share what they learned with the rest of the class.</p>

Credit Basics Vocabulary List

	TERM	DEFINITION
1	Alternative credit	A source of credit that may combine elements of open and closed-end credit and usually have higher interest rates and fees than other forms of credit
2	Closed-end credit	(also known as installment credit) is a loan which you must repay in a specified number of equal monthly payments
3	Open-end credit	(also known as revolving credit) is extended as a line of credit established in advance, so you do not have to apply for credit each time credit is desired
4	Pawn loan	A loan based on the value of personal property
5	Payday loan	A short-term loan that provides immediate cash by securing a borrower's written check or receiving authorization for automatic withdrawal from the borrower's depository institution account
6	Refund anticipation loan	Short-term cash advance secured by a taxpayer's expected tax refund
7	Rent-to-own	Tangible items such as furniture, electronics or household appliances are leased with the condition that the item will be owned by the renter if the term of rent is completed. The cumulative end amount a consumer pays to lease an item is typically much higher than if the consumer bought the item from the onset.
8	Title loan	The borrower gives the lender his/her automobile title in exchange for a set amount of cash. The lender holds the title until the loan is repaid. If the loan is not repaid as agreed, the lender keeps title to the item.

Alternative Lending Hazards

	Total Points Earned
10	Total Points Possible (for participation)
	Percentage

Name _____

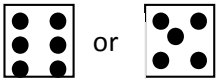

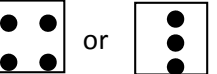



Date _____

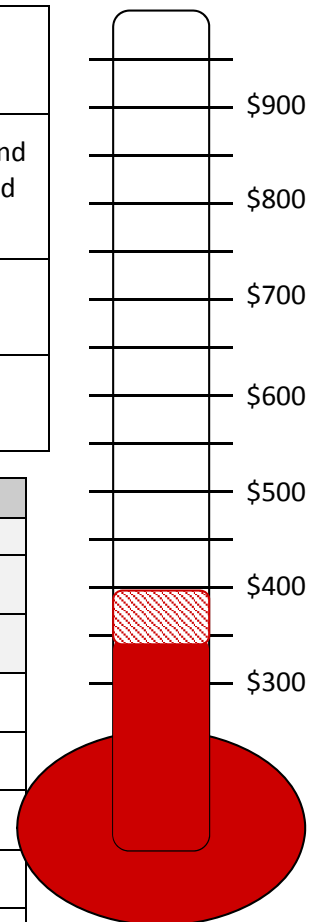
Class _____

Scenario: Mario needs \$300 to pay his car payment, so he decides to take out a payday loan on January 1. He gets paid every two weeks, so he writes a post-dated check for \$350.

Directions: Roll a die. The number on the die represents various payment and loan possibilities that arise each pay period, or every two weeks. After each roll, refer to the key and record the roll, payday loan activity, pay period loan cost, and calculate the sum of the total loan cost in the chart below and on the thermometer. Record the costs Mario has incurred following the example below.

Key:

	or		= Mario cannot pay back the payday loan after receiving his paycheck, so he rolls over the loan and adds \$50 on to his total amount due.
	or		= The payday loan lender cashes the check Mario wrote for the loan and there are insufficient funds in the account. He defaults and is charged a total of \$50 fees from the lender and his financial institution.
			= Mario pays back the initial loan, but needs to take out a second loan for \$350 to pay other expenses.
			= Mario pays back the payday loan in full.



Date	Roll	Payday Loan Activity	Cost	Total Cost
Example:				
January 1	-	Takes out a new loan	\$350	\$350
January 15	5	Rolls over the loan	\$50	\$400
January 29				
February 12				
February 26				
March 12				
March 26				
April 12				
Total Cost				



BIG BLING CREDIT CARD

Disclosure and Agreement

\$5,000 Line, with 2.99% Introductory Rate and 10,000 Free Frequent-Flyer Miles
Make \$1000 in qualified purchases the first month for 5,000 Extra Miles!

Know ye all by these here present: Herewith this agreement is made this day between "Big Bling" Lending, hereafter known as the Pre-dator of this agreement and the undersigned, a fully consenting party, herein known as the Borrower, to these terms and conditions. Education and self-knowledge being the purpose and sine qua non of this contract, it is the goal of this Agreement to clearly and unconditionally establish that objective and to pedagogically present the following terms and conditions with the maximum degree of unadulterated obfuscation.

Accordingly, said Borrower shall have the unrestricted right and privilege of the use of this credit card upon prompt payment as outlined below or until it is revoked by the Pre-dator subject to the following terms and conditions. These rights are not transferrable without the express and written consent of the Pre-dator.

Borrower agrees to accept a Pre-dator approved 10,000 Free Frequent-Flyer miles in return for his/her acceptance of this credit card agreement. Flights must be booked on airlines approved by the Pre-dator, who is not responsible for loss or damages, and subject to promotional availability.

The maximum amount of this line of credit shall be \$5,000 unless a greater amount is negotiated and approved by the Pre-dator. The interest rate (calculated as an Annual Percentage Rate or APR) shall be at the introductory rate of two point 99 percent (2.99%) per annum annual percentage rate is in effect for an introductory period of three months, at which time the rate shall change to the regular rate of ten times the Introductory rate per annum and said rate shall apply to the entire amount borrowed both before and after the introductory period. I fully understand that the any excess cost is what I am paying for the frequent flyer miles. Additionally, it is understood that the borrower has already been advanced the amount of two thousand dollars (\$2,000) on this line and that the current Annual Percentage Rate for cash advances of twenty-nine point 99 percent (29.99%) shall apply to this advance. The minimum monthly payment shall be the monthly amount of interest calculated (.025%) plus 3% of the end of grace period outstanding balance.

Over the Limit Fee: Should borrow exceed maximum amount of line, Pre-dator shall impose a monthly charge of two percent of the end of month Outstanding Balance.

Late Payment Fee: Should borrow fail to make minimum payment due by the end of the grace period, Pre-dator is entitled to impose a fee of ten dollars (\$10) for each week payment is delinquent.

Should the borrower fail to meet the terms of this agreement, Pre-dator reserves the sole right and condition to impose additional conditions upon this agreement regardless of any usury laws, included but not limited to penalties for late payments, exceeding the credit limit, and cancelling this contractual agreement prior to the end of the introductory or promotional period. Should said borrower attempt transfer this agreement into a more favorable one, the Pre-dator shall have the unconditional right to assess damages in an amount to be determined under the Uniform Code of Commercial Conduct to the highest degree of penalty possible. The cost of any attorney's fees shall be the sole and unconditional obligation of the borrower. Borrower acknowledges and consents that any purchases under this agreement are the sole and undivided responsibility of the borrower and that no claim, counterclaim or adverse action cannot be imposed upon the Pre-dator without due notice. All conditions and obligations are as required will be adjudicated under the laws of this state.

FORCE MAJEURE: Pre-dator's failure to perform any term or condition of this Agreement as a result of conditions beyond its control such as, but not limited to war, strikes, fires, floods, acts of God, governmental restrictions, power failures, damage or destruction of any network facilities or servers or any other reason whatsoever, shall not be deemed a breach of this Agreement.

Witness my hand and seal this, _____ day of, _____ month, _____ year.

Print name

Signature

Credit Basics Note Taking Guide

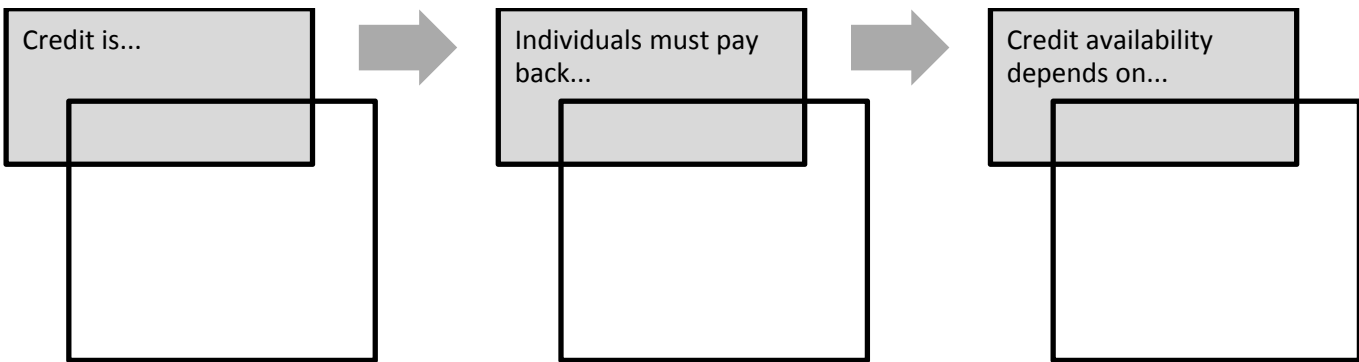
	Total Points Earned
	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Managing Credit Responsibly



What are three credit sources?

Why are you spending future income when using credit?

<div style="font-size: 2em; font-weight: bold; margin-bottom: 10px;">+</div> <p>What are two examples of the purpose of credit providing long-term benefits.</p>	<p>What can happen if credit is not managed responsibly?</p>
--	--

What are three benefits to using money saved or invested instead of credit?

What is a disadvantage of doing this?



Summarize why reading a contract carefully is important and what a person should consider.

Describe the recommended amount to borrow.

Types of Credit

Closed-end Credit

Definition:

Features:

Examples:

Open-end Credit

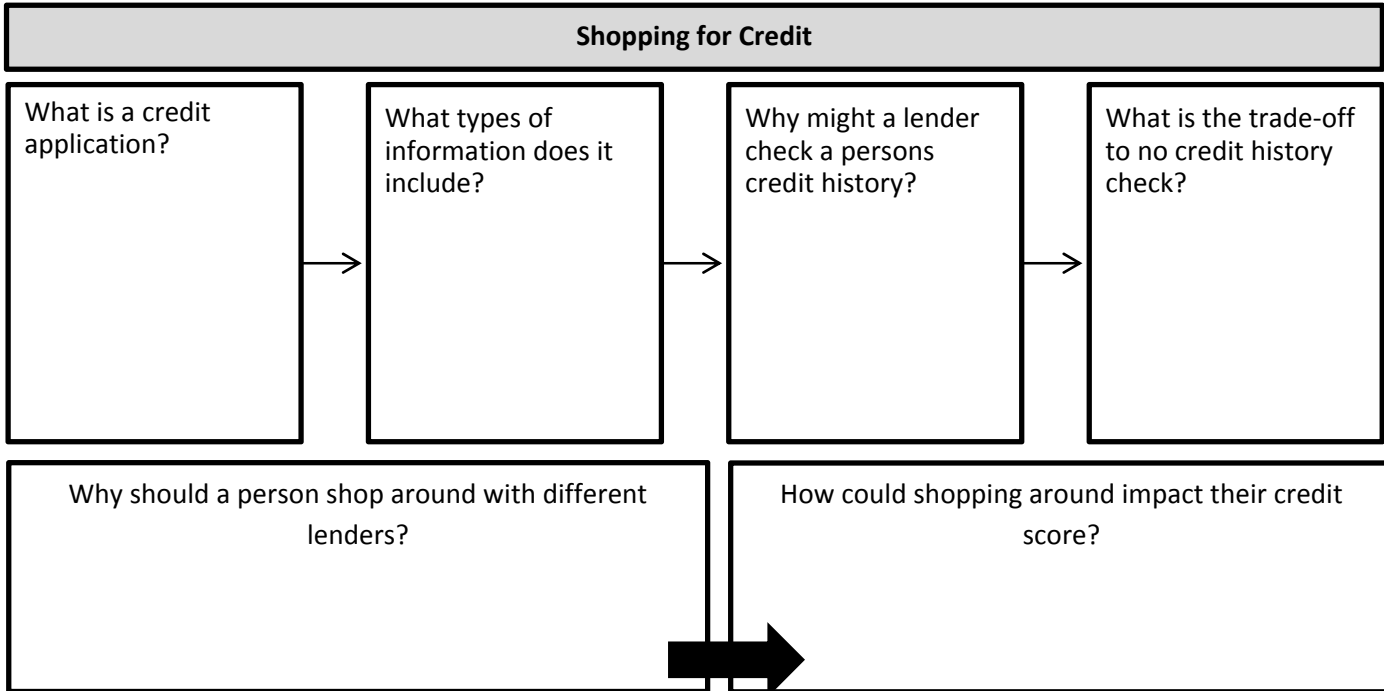
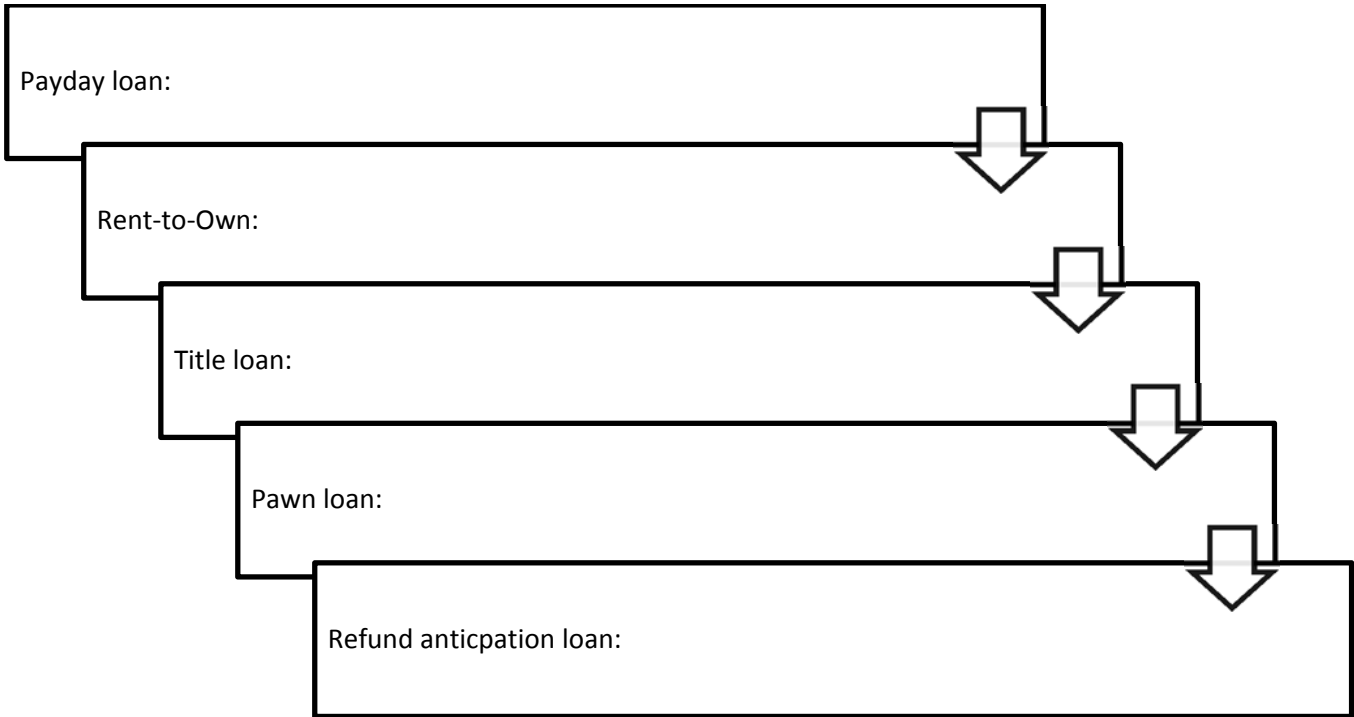
Definition:

Features:

Examples:

What are features of alternative credit?

Describe each type of alternative credit.



Can They Handle the Debt?

	Total Points Earned
	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Directions: Complete the following calculations to determine if the individual in each scenario is within the recommended amount to borrow. As a reminder, the total amount you borrow is recommended to be *less than* 20% of your annual net or monthly net income. Housing payments, including rent and mortgages, should not be counted as part of the monthly 10%, but other debt, such as car loans and insurance, education loans and credit card payments, should be counted.

1. Dominik has a monthly net income of \$1,860. His fixed monthly expenses consist of a rent payment of \$450. He is paying off a student loan of \$280 per month. Dominik would like to buy a new flat screen television set using a retail credit card. What is the largest monthly payment Dominik can afford for the television set so that his credit card payments and student loan keep him within a recommended limit of 20%?

2. Usha and Parker have a combined monthly net income of \$4,500. They both chip in to pay their \$675 rent each month. They also have one outstanding student loan balance of \$6,280. On the student loan debt they pay \$161 per month. Recently they added a balance of \$1,700 to their shared debt for the laptop they bought last month, they are paying as much as they can monthly on this debt. Do you feel Usha and Parker should take on more debt? Why or why not? Are there any items in which debt would make sense for this couple?

3. Yen has a net salary of \$3,722 each month. Her fixed monthly expenses consist of \$500 for rent. She also makes a monthly car payment of \$299, not including her monthly car insurance premium of \$173. Are these payments within Yen’s recommended limit?

Which is the Best Deal?

	Total Points Earned
15	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Scenario: Cesar has started his first job with a monthly net income of \$2,740. He currently has an education loan for \$230 per month. Cesar wants to purchase a reliable vehicle to get to and from work. His dream vehicle is a new truck. After talking to the automobile dealership and conducting extensive research, he has selected one that costs \$25,000 after his \$3,000 down payment. He has shopped around for a loan and has three options.

Directions: Review the information below to help Cesar choose an automobile loan by answering the following questions.

	Option 1	Option 2	Option 3
Lender	Car Dealership	Local Credit Union	Online Auto Loans
Annual Interest Rate	4.2%	1.79%	4.64%
Number of Months	48	60	72
Monthly Payment	\$566.72	\$435.90	\$398.46
Fees	\$0	\$30 application fee	\$45 application fee
Incentives and Requirements	\$2,500 cash back provided to borrower	Must have an account with the credit union	APR increases to 11.36% for a missed payment
Total Amount Paid	\$27,202.56 total payment less \$2,500 = \$24,702.56	\$26,154.00 total + \$30 application fee = \$26,184	\$28,691.28 total + \$45 application fee = \$28,736.28
Total Cost	-\$297.44 (because of the cash back)	\$1,184.00	\$3,736.28

1. What is an advantage and disadvantage of each loan option? (6 points)

	Option 1	Option 2	Option 3
Advantage			
Disadvantage			

Credit Basics

	Total Points Earned
28	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Directions: Match the correct term with the correct definition by placing the letter on the appropriate blank.
(1 point per question)

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. _____ A line of credit established in advance so the borrower does not have to apply for credit each time new credit is desired. 2. _____ A loan which the borrower must repay the amount in a specified number of equal payments. 3. _____ Short-term loan that provides immediate cash by securing a borrower's written check or receiving authorization for automatic withdrawal from the borrower's depository institution account. 4. _____ Tangible items leased with the condition that the item will be owned by the renter if the term of rent (contract) is completed. 5. _____ A loan based on the value of personal property. 6. _____ The borrower gives the lender his/her automobile title in exchange for a set amount of cash. 7. _____ Short-term cash advance secured by a taxpayer's expected tax refund. | <ol style="list-style-type: none"> A. Title loan B. Payday loan C. Closed-end credit D. Refund anticipation loan E. Open-end credit F. Pawn loan G. Rent-to-own loan |
|--|---|

Directions: Determine if each statement is true or false and indicate T for true and F for false. (1 point per question)

8. _____ Annual interest rates for alternative loans can be as high as 300%.
9. _____ All lenders check a person's credit report and score during the loan approval process.
10. _____ The terms of a loan are always consistent for the length of the loan.
11. _____ An example of closed-end credit is a secure credit card.
12. _____ If an individual does not meet the credit terms for a pawn loan, the lender will keep the property.
13. _____ Evaluating the purpose of credit is an important consideration to using credit responsibly.
14. _____ Depending on the credit terms, if a person has a late payment, consequences including higher interest rates, may occur.

Types of Alternative Credit Planning Sheet

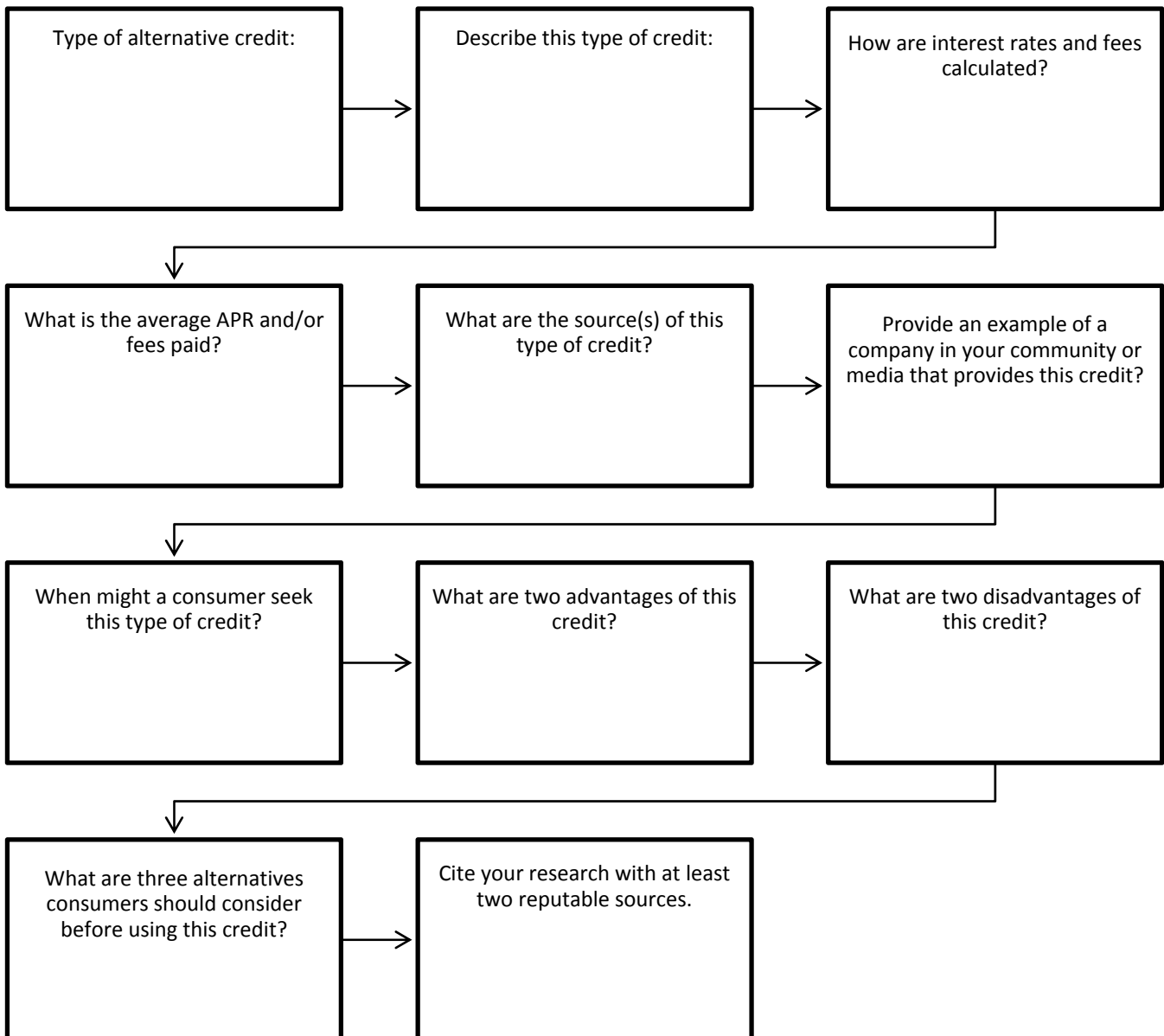
	Total Points Earned
15	Total Points Possible (15 points for completion)
	Percentage

Name _____

Date _____

Class _____

Directions: Your mission is to educate others about a type of alternative credit by creating a visual display. When conducting your research, use at least two reputable information sources. Your visual display must address each of the questions below.



Types of Alternative Credit Visual Display Rubric

	Total Points Earned
25	Total Points Possible
	Percentage

Name _____

Date _____

Class _____

Directions: Create a visual display to educate others about the type of alternative credit you researched using the Types of Alternative Credit Planning Sheet 2.6.2.A5.

	Exemplary	Satisfactory	Unsatisfactory	No Performance	Score
Content: <ul style="list-style-type: none"> ▪ All questions on the Types of Alternative Credit Planning sheet are addressed 	10-8	7-4	3-1	0	
Quality of Information: <ul style="list-style-type: none"> ▪ At least two reputable sources were used for the research ▪ The information on the display is accurate ▪ Information presented is free of spelling and grammatical errors 	9-7	6-4	3-1	0	
Effectiveness of Visual Display: <ul style="list-style-type: none"> ▪ Display is neat and visually-appealing ▪ Display is easy to read ▪ Display is creatively presented 	6-5	4-3	2-1	0	
				Total Points Earned	
				Total Points Available	25
				Percentage	

Credit Basics

Advanced Level

Your present self impacts your future self. When borrowing, you are spending future income.

You have used **credit** if you receive money, goods or services in exchange for your promise to pay back a definite sum of money at a future date. Credit involves borrowing. Credit availability depends in large part on whether lenders trust that you will pay back the loan as agreed. Lenders consider you more creditworthy as they gain confidence that you will pay back loans. Sources of credit include but are not limited to depository institutions, private mortgage companies, finance companies, automobile dealerships, credit card companies, retail stores, insurance agents, payday loan companies and pawn shops.

Using Credit Responsibly

You are responsible for yourself.

When you borrow, you are spending future income. You pay back a loan by making regular payments (usually monthly) over time. The lender also typically expects you to pay back interest in addition to the amount borrowed.

For example: Toby was approved for a \$10,000 loan at an 8% interest rate to purchase a used automobile. The loan terms require him to make monthly payments of \$313.36 for the next three years (36 months) to pay back the loan. In addition to paying back the original \$10,000 borrowed, Toby will also be paying a total of \$1,280.96 in interest. So, the total amount repaid over the 36 months will be \$11,280.96.

Credit is an effective financial tool when managed responsibly. But, not managing your credit wisely and over-obligating your future income can lead to a decrease in your future quality of life and negative financial well-being.

Before you borrow, carefully evaluate the reason(s) for using credit. Are you going to apply for credit to pay for higher education, purchase a home or buy a new car? Borrowing to pay for higher education is a way you can invest in your human capital. This investment may pay off in the future with a better job and higher wages. Similarly, borrowing for a new home or a new car can make sense by securing more comfortable housing or more reliable transportation. But, you should think through any purchase that requires you to borrow.

The amount owed for credit is a liability on the Statement of Financial Position and decreases total net worth (assets – liabilities)



Statement of Financial Position	
Liabilities	
Home mortgage balance	
Installment loan balance for automobile	
Student loan balance	
Credit card balance	
Money owed to others	
Other:	
Total Liabilities	\$
Net Worth = Total Assets - Total Liabilities	\$

Do you have the option of using your savings or maybe dipping into an investment account as an alternative to borrowing? You may discover one or both of these options are better suited for you. Examine possible penalties for withdrawing funds from your investment account. Those potential penalties may sway your decision.

Remember that a loan is a legal contract. Once you enter into this contract you are required to make payments in the future according to the agreement. Take a look at the impact that your loan payments will have on your budget. Can you manage this monthly payment along with your other financial responsibilities? Financial experts recommend that the total amount borrowed (excluding any mortgage loans) should be less than 20% of your annual net income. Your monthly loan payments (including payments for auto loans, education loans, credit card payments, but excluding any mortgage payments) should not be more than 10% of your monthly net income. Keeping the total amount of credit owed within these limits is a part of using credit responsibly.

Why should individuals limit their total amount of debt?

Types of Credit

There are two types of credit:

- **Closed-end credit** (also known as installment credit) is a loan which you must repay in a specified number of equal monthly payments. Examples of closed-end credit include automobile loans, mortgages, and education loans.
- **Open-end credit** (also known as revolving credit) is extended as a line of credit established in advance, so you do not have to apply for credit each time credit is desired. Credit cards are the most common type of open-end credit. A unique feature of open-end credit is that you can pay the loan balance in a single payment or a series of equal or unequal monthly payments. Your lender will typically require a specified minimum monthly payment towards your outstanding balance.

How will you use credit responsibly?

The following table outlines examples of different types of credit and the most common sources for each type:

Type of Credit	Example	Other Information	Most Common Sources of Credit
Closed-end credit	Mortgage loans	Includes home equity loans	Depository institutions Private mortgage companies
	Automobile loans		Depository institutions Automobile dealerships
	Personal loans		Depository institutions
	Education (student) loans		Government and depository institutions
Open-end credit	Credit cards	There are many different types: <ul style="list-style-type: none"> Secured Retail store 	Depository institutions Credit card companies Retail stores
Alternative	Payday loans	<ul style="list-style-type: none"> A short-term loan that provides immediate cash by securing a borrower's written check or receiving authorization for automatic withdrawal from the borrower's depository institution account. For example, James writes a check for \$350 to the payday lender. The lender gives James \$290 in cash and keeps \$60 for fees. The lender holds the check until the agreed upon date, usually the borrower's payday before cashing it. Also known as cash advance loans 	Payday lenders
	Rent-to Own	<ul style="list-style-type: none"> Tangible items such as furniture, electronics or household appliances are leased with the condition that the item will be owned by the renter if the term of rent is completed. The cumulative end amount a consumer pays to lease an item is typically much higher than if the consumer bought the item from the onset. 	Rent to Own retail stores
	Pawn loans	<ul style="list-style-type: none"> A loan based on the value of personal property. The personal property is held until the borrower repays the loan, including any fees. If the owner fails to repay the loan the lender keeps the item. 	Pawn shops
	Title loans	<ul style="list-style-type: none"> The borrower gives the lender his/her automobile title in exchange for a set amount of cash. The lender holds the title until the loan is repaid. If the loan is not repaid as agreed, the lender keeps title to the item. 	Title loan companies
	Refund anticipation loans	<ul style="list-style-type: none"> Short-term cash advance secured by a taxpayer's expected tax refund. If the tax refund is less than expected, the borrower owes the lender the difference. 	Varies

How to Obtain Credit

Shopping for Credit

As with the purchase of any good or service, it pays to shop for credit. Comparing offers across different lenders provides you with the opportunity to find the best credit terms to fit your needs. Consider the following:

- Interest rate – What is the annual interest rate?
- Fees – Are there fees associated with the application process and/or the use of the credit? Are there any fees for repaying the loan early?
- Missed or late payment – What does the credit contract indicate are consequences of missed or late payments?
- Default – What is the consequence of not paying back in full the borrowed amount?

Credit scoring models recognize that a person may want to shop around to find the best credit terms for them. Therefore, multiple inquiries for the same type of loan, like a mortgage or automobile loan, are counted as a single inquiry if conducted within any 14-day period. This minimizes or eliminates any impact on a credit score.

Applying for Credit

The exact process to obtaining credit varies depending on the lender and type of credit. However, most lenders require two steps:

1. Credit application: A **credit application** is a form requesting information about the applicant (you). Depending upon the lender, credit applications may be completed in person or online. Credit applications usually ask for the following categories of information, but specific questions will depend on the type of credit and the lender:
 - a. Personal information: Name, address, social security number, etc.
 - b. Amount of credit requested: The lender will ask how much you want to borrow, and may also ask how long you need to pay it back and how you intend to use the loan.
 - c. Information regarding your ability to repay the loan: Lenders will probably ask about your income, and may require proof. They will also want to know of any additional debt.
2. Credit history check: Most lenders will check your credit history by obtaining a copy of your credit report and/or credit score to determine how likely you are to repay the credit (your credit worthiness). Alternative lenders such as payday and title loans commonly advertise credit approval with no credit history check. However, the trade-off to no credit history check is often higher interest rates and fees.

To obtain credit if you are under the age of 18, you must have an adult co-signer. If you are between the ages of 18 -21, to obtain a credit card you must have a co-signer or proof of sufficient income to make payments. Make sure co-signers understand that they are equally responsible for the credit, and that it will appear on their credit report as well.

You are responsible for your present self and future self.

You are responsible for understanding your responsibilities as a borrower, including the terms of a credit contract. Before signing a credit contract, shop around for the best credit terms for you and consider the future implications of paying back the amount borrowed.