TOPIC: Credit and Debt

TIME REQUIRED: 55 minutes   
*(excluding* **Extended Exploration***activities)*

LEARNING OBJECTIVES:

*Students will be able to…*

* Understand how to build credit and avoid practices that may hurt credit
* Identify the economic benefits   
  of good credit
* Discuss the consequences of debt

SUPPLIES:

* Loose-leaf paper for **Letter to   
  My Future Self**
* Access to the Internet **(optional)**

PREPaRATION:

* Make copies of student handout and group handouts
* Set up individual or group computers with access to the Internet (**optional**)
* Print credit/debt crisis article
* Student grouping strategy for   
  jigsaw activity

STUDENT HANDOUT:  
*(found in* **Student Guide***)*

* ***Understanding Credit***

***Anticipation Guide***

Group Handouts:

* ***Credit Vocabulary*** (station set)
* ***The Pros and Cons   
  of Credit*** (station set)
* ***How to Build Good Credit*** (station set)
* ***Practices That Hurt Credit*** (station set)

ESSENTIAL QUESTIONS:

* *What is credit?*
* *In what instances should you use credit?*
* *What are some strategies to   
  maintain good credit?*
* *How does having good credit result   
  in other positive benefits?*

ASSESSMENT ACTIVITIES:

**Pre-Assessment:**

* **Understanding Credit Anticipation Guide** from the Warm Up

**Post-Assessment:**

* **Understanding Credit Anticipation Guide** after the Group Exploration
* **Letter to My Future Self** activity

Instruction Steps

WARM UP

Understanding Credit Anticipation Guide [5 minutes]

Provide students with the ***Understanding Credit Anticipation Guide*** student handout. Allow students a few minutes to fill it out under the “Before” column. Explain that students will return to their guide during the Group Exploration, as they learn more about credit, but this is ungraded in the “Before” column.

MONEY SMART TIP!

A debit card allows you to make purchases in real time by accessing the   
money in your savings, checking, or other on-demand accounts. A credit card allows   
you to use a loan to make purchases and pay back the loan within a specified amount of time. See more at [**http://www.consumer.ftc.gov/articles/0332-credit-debit-and-charge-cards**](http://www.consumer.ftc.gov/articles/0332-credit-debit-and-charge-cards)**.**

Guided Exploration

Understanding Credit Mini-Lesson [10 minutes]

Over the course of the lesson, students will learn all of the information they need to accurately complete the “After” section of their ***Understanding Credit Anticipation Guide***. To start, explain that, when you get a credit card, the bank is giving you a possible loan up to the credit limit, say $5,000. (When you apply for a credit card, issuers will determine your ability to handle debt by reviewing your application and credit report. They also determine the credit limit during this process.) In other words, you are borrowing money. If you choose to take a portion of that “loan” to purchase something, and you do not repay it in full by the statement due date, you will be charged **interest** (which is the cost of borrowing money) because you took advantage of the loan.

So, let’s say you have a credit card with a 15% **annual percentage rate (APR),** which is the fee you pay for borrowing money. Most credit cards compound interest on a *daily* basis, so you have to calculate how much interest you owe on a credit card daily. To do this, divide 15% by 365 days in the year, which equals a daily interest rate of 0.041%. Then, let’s say you spent $10,000 using your credit card. Most credit card companies allow a 21-day grace period before charging interest, but if you cannot pay off your credit card during that time period, you will begin to pay interest. On the first day, you would multiply your $10,000 credit card balance by the daily interest rate (.00041), and you would get $4.10. On the second day, you’d multiply your $10,004.10 balance by the daily interest rate (.00041), and you would get $4.10 again, making your total $10,008.20. If you let your credit card compound over 30 days, you’d owe $10,125.76. Over a year, you’d owe $11,617.98.

Check students’ understanding by asking:

* *What are the advantages of using a credit card?*
* *What are the disadvantages?*

Remind students that there are many ways to make a purchase, aside from using credit, such as using cash, debit, or installment loans.

MONEY SMART TIP!

Credit card agreements are required to explain the APR of each card, in addition to   
penalties and fees. The Federal Reserve has an explanation of each. **http://www.federalreserve.gov/creditcard/flash/offerflash.html.**

Credit and Debt in the United States [10 minutes]

Select (either from links or from an online news search) an informational text about credit and debt in the United States. Topics include student loans, low credit scores, and defaulting on loans.

After the class has read the article, discuss common problems with credit and debt in the United States. Some broad questions include:

* *What is the crisis here?*
* *What actions could individuals have taken to avert this crisis?*

Group Exploration

Understanding Credit Jigsaw Groups [20 minutes]

Split students into four groups. Set up four stations, each with one of the following group handouts:   
1) ***Credit Vocabulary***, 2) ***The Pros and Cons of Credit***, 3) ***How to Build Good Credit***, and   
4) ***Practices That Hurt Credit***. Tell students to take their anticipation guides to their stations.

In stations, students should learn more about their topic area. If they come across an answer that is on their ***Understanding Credit Anticipation Guide***, they should write that answer in the “After” column with evidence to support their “After” answer. (For example: if the answer is false, what would make the statement true?) Explain that, eventually, they will be placed in a group with three other people from the other stations, so they must be able to explain the information that they are marking.

Once students are finished with their groups, they should be “jig-sawed” (regrouped) into a group with one member from each station. So, new groups should be composed of at least one member from ***Credit Vocabulary***, at least one member from ***The Pros and Cons of Credit***, at least one member from ***How to Build Good Credit***, and at least one member from ***Practices That Hurt Credit***.

In their groups, students should share and explain the correct answers that they logged in the “After” section of their ***Understanding Credit Anticipation Guide****.* By the end of this portion, all students should have the correct answers in the “After” column of their guide.

Optional check for understanding questions:

* *What are some strategies to maintain good credit?*
* *What are the benefits of having good credit?*
* *What are the consequences of being in debt?*
* *When should you use credit?*

Wrap Up

Letter to My Future Self [10 minutes]

Remind students that they have just learned information about credit and debt, but people in the United States continue to struggle under the weight of debt.

Ask students to take out a sheet of loose-leaf paper, on which they will write a letter to their future selves. In their letter, students should provide financial tips about debt and credit and remind themselves about strategies to maintain good credit.

MONEY SMART TIP!

Do you want students to actually receive their letters from the future? “Future Me” allows students to compose an email and send it to themselves in the future**.** [**http://www.futureme.org/**](http://www.futureme.org/)

extended exploration

**Note:** Use the following ideas to extend financial literacy concepts throughout the school year within core content areas through English Language Arts, Math, Social Studies and Economics, and Technology activities, projects, and discussions. Duration of activities will vary.

English Language Arts

* **Writing Prompts:**
* Who should be allowed to have a credit card? Do age, personal history,   
  income, or employment matter? Develop criteria for who should be allowed   
  to have a credit card, and support each criterion.
* Solve the problem. As you have learned, many Americans struggle with   
  credit and debt. How can this problem be solved?
* **Additional Readings/Resources:**
* *Credit, Loans, and Debt* by the Federal Trade Commission: Articles on credit history and using credit. <http://www.consumer.gov/section/credit-loans-and-debt>
* *Credit and Loans* by the Federal Trade Commission: Articles on the impact of credit scores, free credit reports, and rights and responsibilities of owning a credit card. <http://www.consumer.ftc.gov/topics/credit-and-loans>
* *Choosing a Credit Card* by the U.S. government: A list of factors to consider when choosing a credit card. <http://www.usa.gov/topics/money/credit/credit-cards.shtml>
* *The Math of Credit Card Debt, Explained* by National Public Radio: A video explanation of how credit cards work and how credit card companies make money. (Time of video: 4:30 minutes) <http://blogs.kqed.org/lowdown/2014/01/21/how-credit-cards-really-work/>

Math

* **Activity/Project Ideas:**
* Compare credit card statements. Using the same sample purchase, compare the cost of the purchase using each of the credit cards.

Social Studies and Economics

* **Activity/Project Ideas:**
* In 2009, the U.S. federal government passed the Credit Card Accountability, Responsibility, and Disclosure (CARD) Act. Have students evaluate the changes made as a result of this act.

Technology

* **Online Games/Tools:**
* *It Costs What?* by the Educational Broadcast Corporation: A game that helps students understand credit cards and how four people can end up paying different amounts on the exact same thing. <http://www.thirteen.org/finance/games/itcostswhat.html>
* *It All Adds Up* by the Council for Economic Education: Online games teaching students about credit management. <http://www.italladdsup.org/>
* *Celebrity Calamity!* by Financial Entertainment: A game that helps students learn about credit and debt management by managing the finances of a clueless celebrity. <http://financialentertainment.org/play/celebritycalamity.html>

Group Handouts 73

Answer Key 96

Glossary with key vocabulary 105

Standards met by lesson 107

Lesson Overview

As students gain additional understanding of borrowing and lending, analyzing the cost of borrowing becomes a critical skill to practice. In this lesson, learners demonstrate their understanding of **credit** by recognizing how to manage and damage credit, qualifications for a credit candidate, and how credit cards fit into the larger discussion on credit.