



Using Credit Wisely

LESSON 14: TEACHERS GUIDE

As teens prepare to enter the financial world, there are many elements for them to consider when it comes to credit. Whether they are off to college in a few months or gearing up to purchase a first car, they will find that credit plays an important part in many life activities—if used wisely. But used unwisely, credit can lead to unmanageable debt. In this lesson, students will discuss the concept of credit and how it can be used responsibly, learn different components of credit cards, review elements of a credit score and research consumer credit laws.

Topic: Wise Use of Credit

Time Required: 70 minutes

SUPPLIES:

- Notebooks
- Computers or tablets
- Internet access
- Projector
- Digital images of “big-ticket” items (cars, TVs, etc.)
- Student activity sheets (2)

PREPARATION:

- Copy student activity sheets
- Collect images using a website like google.com/imghp

STUDENT ACTIVITY SHEETS:

It's More Than a Piece of Plastic

In this activity, students explore and define credit card terms.

Consumer Credit Laws

Students will research and explore definitions of consumer credit laws.

LEARNING OBJECTIVES:

Students will...

- Understand the elements of credit
- Evaluate how use of credit influences credit scores
- Explore major consumer credit laws

STANDARDS:

Jump\$tart Standards:

- Credit Standards 1, 2 and 4
- Financial Responsibility Standard 2

National Economics Standards:

- Standard 10: Institutions

Common Core ELA Anchor Standards:

- Reading: Key Ideas and Details
- Writing: Research to Build and Present Knowledge
- Speaking and Listening: Comprehension and Collaboration
- Speaking and Listening: Presentation of Knowledge and Ideas
- Language: Vocabulary Acquisition and Use

Essential Question

“How can I use credit wisely?”

Investigate: What is Credit?

[Time Required: 20 minutes]

1. Begin by playing or otherwise showing the collection of digital images representing “big-ticket” items (e.g., cars, TVs, etc.). Ask students which items catch their eye, and what they would need in order to purchase the items.
2. Initiate a discussion on payment methods (e.g., cash, credit, debit). Explain that a **debit card** may look like a credit card, but it doesn’t extend **credit**. Explain that **credit** is borrowing or buying with an agreement to pay later, while a debit card actually withdraws the money from your bank account when a purchase is made. When you use a credit card to make a purchase, you are essentially taking out a loan for the amount of your purchase, and agreeing to pay the amount back with interest.
3. Next, ask students to raise their hands if they have ever used a credit or debit card. Explain that credit and debit cards are part of daily life but many people, even those who use them, don’t understand how they work.
4. Distribute ***It’s More Than a Piece of Plastic*** and explain that there are some common factors that can be confusing when it comes to credit cards. Challenge students to work with a partner to research and define each factor using the information at practicalmoneyskills.com/HS18. Give them ten minutes to complete the activity.
5. Invite volunteers to share their definitions and engage students in a discussion about credit. What is the significance of having a high or low credit line? What happens if we only make minimum payments on a credit card? What is the significance of an annual fee?
6. Next, tell students they will have ten minutes to review the differences between credit and debit cards by reviewing the information at the following websites:
 - a. practicalmoneyskills.com/personalfinance/creditdebt
 - b. practicalmoneyskills.com/personalfinance/savingspending



TEACHER’S TIP

What is the Essential Question?

The Essential Question is designed to “hook” the learner, promote inquiry and engagement with the lesson, and allow students to exercise problem-solving abilities. It addresses a larger concept, does not have a right or wrong answer, and requires higher order thinking skills.



7. Ask students to open their notebooks and to create a simple chart for recording their research by writing “Credit Cards” and “Debit Cards” side by side at the top of the page. To the left, have them include the following four items as a list going down the page, with space between each: similarities, differences, advantages, disadvantages. Have students research the pros and cons of debit and credit cards, and record their findings in the simple charts they have created.
8. Invite volunteers to share their discoveries and initiate a discussion on the pros and cons of credit versus debit. Ask students what the major differences are between credit and debit and how each can impact our finances. For example, credit cards allow us to borrow money, while debit cards immediately withdraw the purchase amount from a bank account. Help students understand there can be various fees attached to both types of cards (e.g., ATM fees for debit cards, annual fees for a credit card, etc).

**TEACHER'S TIP****Link to Lesson 6:**

For more information on the elements of credit scores, refer to **Lesson 6**.

Student Preparation: The Importance of a Good Credit Record

[Time Required: 25 minutes]

9. Next, ask students to think about the ways in which a good credit record is important to our lives. Explain that establishing and maintaining good credit can enable us to get loans for larger items like a car or home—and at lower interest rates than individuals with poor credit histories. A good credit score and credit history also allows us to demonstrate our financial responsibility to landlords or roommates when renting an apartment.
10. Remind students that credit records play an important role in renting an apartment, in vehicle loans as discussed in **Lesson 3** and student loans as discussed in **Lesson 4**. Inform them that the role credit plays in home loans will be discussed in **Lesson 16**.
11. Remind students that “creditworthiness” plays a role in determining eligibility for credit cards and loans. Ask them what factors go into measuring a credit score, and what can impact a score positively or negatively.
12. Remind students that as discussed in lesson 6, credit scores examine our character, capital and capacity. Lenders need to know that we have used credit successfully in the past, that we pay bills on time and that we have the available assets to repay debt.

Challenge: Consumer Credit Laws

[Time Required: 20 minutes]

13. Explain to students that it's also important to understand how their credit records are protected. Credit laws include the inability to discriminate based on religion, marital status and race.
14. Explain that we also have access to a free credit report each year (via websites such as AnnualCreditReport.com) and that it is important to review our credit report periodically to check for mistakes or instances of fraud. If we feel our credit report is inaccurate or incomplete, we have the right to dispute the issue.
15. Distribute the activity sheet **Consumer Credit Laws** and give students ten minutes to complete the activity.
16. Invite volunteers to share their definitions with the class and discuss why consumer credit laws are important. What would happen if we didn't have these laws in place? How do these laws protect us? Why is it necessary to establish and maintain credit laws?

Reflection

[Time Required: 5 minutes]

Ask students to write in their notebooks about the costs and benefits of credit. How can students use credit as part of a smart financial life?



TEACHER'S TIP

What is Reflection?

The Reflection part of the class gives students the opportunity to reflect on the bigger-picture meaning of the exercise, and to assimilate and personalize some of the concepts and ideas learned about in the class.



It's More Than a Piece of Plastic

LESSON 14: ANSWER KEY 1

Wording will vary depending on student.

1. Annual fee

The fee you pay per year in order to keep your credit card. Some cards have no annual fee, while others carry high fees.

2. Annual percentage rate (APR)

The percent charged every year on top of any outstanding payments currently on your card.

3. Credit line

The maximum amount of money that can be charged to a given credit card account at any given time. It's important to know what your credit line is so that you don't spend beyond that amount.

4. Cash back/rewards

Benefits and bonuses a credit card company offers to entice you to open a card, such as cash back or travel rewards.

5. Balance

The amount owed on the card. If you spent \$500 on a card last month, the balance on your statement will read that you owe \$500.

6. Minimum payment

The smallest amount you can pay toward your credit card bill. If your balance is \$30 and the minimum payment is \$10, you can pay \$10 instead of \$30. It can be easy to get in the habit of paying only the minimum amount and not the entire balance owed, a process that can lead to debt.



Consumer Credit Laws

LESSON 14: ANSWER KEY 2

Answers will vary slightly among students.

1. The Fair Credit Reporting Act promotes the accuracy and privacy of information and enables consumers to receive a copy of their credit report.
2. The Equal Credit Opportunity Act protects consumers from being discriminated by sex, race, marital status, religion or age when obtaining credit. Consumers also have the right to know the reasons if they are denied credit.
3. In the case of an error in credit billing or electronic fund transfer, the Fair Credit Billing Act and Electronic Fund Transfer Act protect the consumer by following established procedures in resolving mistakes.
4. The Fair Debt Collect Practices Act ensures debt collectors follow specific procedures and protocols when collecting debts and protects against deceptive, abusive or unfair collection practices.