Credit

Lesson 4: Teacher's Guide | Rookie: Ages 11-14

FINANCIAL FOOTBALL

Aim for Strong Stats, Why Credit Counts

Building and managing your credit responsibly is crucial for reaching financial goals. This 45-minute module develops students' awareness of what credit is, how personal creditworthiness is built and maintained, and the factors to consider in choosing different types of loans.

Getting Your Class Game-Ready: In football, as in other sports, statistics are used to measure how well individual football players perform, as well as where the team stands in the league's rankings. Favorable numbers play a huge part in how the football player does in his or her career, as well as whether the team eventually makes it to the playoffs or the Super Bowl.

Once students start using credit, whether through credit cards, student loans, or other forms of borrowing, they begin building a credit history. This credit history is a bit like a player's statistics in football. By looking at your past financial statistics, banks or lenders can evaluate and measure the likelihood that you'll be able to pay off debt if they decide to give you a loan or a credit card. In other words, your credit history, measured using past performance with money, determines what kind of credit risk you are.

As young adults begin to build credit, it's important for them to learn about creditworthiness and how it can affect one's financial future. Avoiding mistakes that damage creditworthiness is vital, because once it's damaged, restoring that creditworthiness may be a long and difficult process.

Module Level: Rookie, Ages 11-14

Time Outline: 45 minutes total (with optional 45-minute extension activities)

Subjects: Economics, Math, Finance, Consumer Sciences, Life Skills

Materials: Facilitators may print and photocopy handouts and quizzes, or direct students to the online resources below.

- **Pre- and Post-Test questions:** This short grouping of questions may be used as a quick, formative assessment for the credit module or as a Pre- and Post-Test at the beginning and completion of the entire module series.

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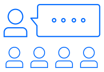
Overview, cont.

- **Blank index cards for vocabulary game**
- **Practical Money Skills Credit resources:** practicalmoneyskills.com/ff12
- **Choose Your Own Adventure handout**
- **Practical Money Guides Credit History:** practicalmoneyskills.com/ff14
- **True Cost of Credit handout**
- **Cost of Credit Financial calculator:** practicalmoneyskills.com/ff15
- **Glossary of Terms:** Learn basic financial concepts with this list of terms.

Icon Key

Activity

Assign the given activity to students and have them complete it individually or with a group, depending on the instructions.



Ask

Pose questions to your students and have them respond.

Assign

Designate individuals or groups to complete a particular assignment.

Debrief

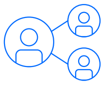
Examine the activities as a whole group and compare answers and findings.

Did You Know?

Share these fun facts with students throughout the lesson.

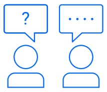
Pre- and Post-Test

Have students take the Pre-Test before the lesson, and take the Post-Test after completing the lesson.



Share

Read or paraphrase the lesson content to students.



Turn and Talk

Have students turn to a partner and discuss a specific topic or question.

Table of Contents

Learning Objectives

- – Define credit, credit scores, and credit reports
- – Identify what builds creditworthiness
- – Examine the five Cs of credit (character, capital, capacity, collateral, and conditions)
- – Analyze the costs and benefits of credit cards and other types of credit

Key Terms and Concepts

Before you start the lesson, review the key terms and concepts below. The answers to each question will help you get students prepped and game-ready. Get deeper information around these concepts in the Facilitator Script section on pages 9 to 11 of this guide.

What is credit and how does it affect my life?

Credit is trusting someone to borrow money or something else of value and paying for it later. Credit can be a convenient and flexible form of payment, but it must be used responsibly in order for you to make the most of your money.

How do I get a credit score and what does it mean?

When you apply for credit, lenders determine your credit risk by examining a number of factors, including your credit scores from companies like FICO and VantageScore. Each of the three main credit bureaus — Experian, TransUnion, and Equifax — keeps credit information about you that is used to calculate your scores. This includes your payment history, the amount of money you owe, the length of your credit history, and the number of recently opened credit accounts. The resulting three-digit score reflects your creditworthiness — how likely you are to repay debts. Scores can vary between 300 and 850. If you haven't ever had a loan in your name you may not have a score — just like a player who hasn't played in a game yet.

What is on my credit report?

Your credit report shows how you've handled your finances. Credit scores are based on a review of your credit report. Your credit report is a statement that has information about your credit activity and current credit situation, such as loan paying history and the status of your credit accounts. Just like a football player's stats or a student's report card, it shows how you are doing with your money.

How do I get to see my credit report?

Everyone who is 18 years or older is entitled to receive a free copy of their credit report once every 12 months. Once you are 18, you can order yours online from annualcreditreport.com or by calling 1-877-322-8228. You will need to verify your identity with your name, birth date, address, and Social Security number.

Learning Objectives, cont.

How can I build my creditworthiness?

Credit scores change over time; they go up or down based on how much debt you owe and how you manage your bills. If someone has late payments or owes a large amount of money, it can decrease their credit score dramatically.

When I turn 18, how can I build my creditworthiness?

1. Build your Character:
    - ✓ Always pay your bills on time.
    - ✓ When you are confident you can manage the responsibility of a credit card, consider opening a secured credit card account. Always pay your credit card balance in full and on time each month and maintain balances below 10% of your credit limit.
    - ✓ Protect your identity. If your credit card is lost or stolen, report it to the issuer immediately. Check each credit report once a year for inaccuracies and immediately report errors to resolve any issues.
    - ✓ Do not apply excessively for credit.
2. Grow your Capital:
    - ✓ Use savings strategies to save for the down payment of a future loan.
3. Establish evidence of your Capacity to repay loans:
    - ✓ Establish a consistent work history and increase your cash flow.
    - ✓ Avoid over borrowing. Whether it is a student loan, mortgage, a credit card, or an auto loan, just because you qualify to borrow a certain amount doesn't mean you have to borrow that amount.
4. Document Collateral:
    - ✓ Ensure you have a list of property or assets, as some lenders may require you to put up this collateral for certain types of loans.
5. Assess Conditions:
    - ✓ Take stock of why you need the loan (such as buying a car), the amount you are requesting, and the current interest rates, as lenders may want to know these details.
    - ✓ Consider conditions that are out of your control, like the current state of the economy.

10 ways to keep your credit score strong

Each of these strategies will help you grow and manage your credit over time.

1. Complete credit applications carefully and accurately.
2. Use your credit cards responsibly — don't spend more than you can reasonably pay back. Be careful not reach your credit card's limit (the total amount available to borrow).
3. Choose your credit cards wisely and make sure you understand all of the terms and features.

Learning Objectives, cont.

4. Attempt to pay your credit card balance in full each month, but at least make the minimum payment by the due date.
5. Always pay bills on time.
6. If you have problems paying your bills, contact your creditors. In many cases, they will work with you to figure out a payment plan.
7. If you move, let your creditors know your new address as soon as possible to avoid losing bills or receiving them late.
8. If your credit card is lost or stolen, report it to the issuer immediately.
9. Check your credit reports periodically for inaccuracies and immediately report errors to resolve any issues.
10. Establish a consistent work history.

How do I choose the best credit card or loan?

The best way to maximize the benefits of loans, including student, auto, credit card, personal, and peer-to-peer loan options, is to understand your financial lifestyle — what you need, what you want, and how much money you spend. Begin your search for a credit card by determining key factors like how often you'll use it, whether you'll want to use it overseas, and if the financial institution that offers it has a branch near you. It's important to make sure you know the terms of the credit card in the following areas:

- Annual percentage rates (APRs) and whether rates are fixed or variable. This rate shows you how much interest you will be charged if you do not pay your full bill each month.
- Annual, late, and overdraft-limit fees; are different fees that you can be charged for having a credit card. Some cards have an annual membership fee. All credit cards charge late fees if you miss a payment. Some credit cards charge overdraft-limit fees if you spend more than your credit limit.
- Credit limit on account, this is the maximum amount you are allowed to borrow (spend) from your credit card.
- Grace periods before interest begins accruing.
- Rewards, including airline miles or cash back.

Consider your options and be smart about other loans you take out, including:

Student Loans – If you need to borrow money to cover your college tuition, you normally take out a student loan. There are a few options to consider, including federal loans and loans from private companies.

Auto Loans – You may be able to buy and finance a car through an auto loan from a car dealership, bank, or credit union. You may also take out a home equity loan, which allows you to use your home as collateral for your auto loan.

Learning Objectives, cont.

Personal Loans – A personal loan can be used to cover various costs, from repaying credit card debt to taking an expensive vacation, at your discretion. Personal loans can be secured or unsecured, depending on whether you have collateral and the risk you want to take.

Peer-to-Peer Loans – You can use an online service to match up with a peer lender, whether you want a loan for personal purposes or another reason. Many of these loans are unsecured, and since operations are conducted entirely online, you should approach peer-to-peer loans with caution.

Module Section Outline with Facilitator Script

Introduction: Warm-Up

Share: Get your students warmed up before playing the game by teaching them more about the concept of credit. Start by sharing stories about the wise use of credit to help students develop good personal finance habits. After sharing those examples, poll your class by asking the question in the prompt below.

Ask: Ask students: Once you're 18 years old, do you think a credit score will impact your ability to get a cell phone on your own or rent an apartment? (Answer: Yes) We'll explore the many ways our credit score affects our financial opportunities.

Optional Pre-Test: Have students turn to page 9 of the Student Activities guide to take the optional Post-Test.

Credit Basics & Credit Cards

Assign: Have students work in pairs to calculate the numbers in the series of provided purchase scenarios on the Choose Your Own Adventure handout on page 10 of their Student Activities Guide.

Assign: Assign students The True Cost of Credit activity on page 11 of their Student Activities guide. Break students into pairs and ask them to review each scenario and answer questions on how long it will take to pay the loan off and how much they will pay in finance charges using the Cost of Credit financial calculator: practicalmoneyskills.com/ff15. After each student completes the activity in pairs, conduct a "Turn and Talk" session where students discuss with each other of how credit cards work.

Directions: Break students into two teams and play a short trivia vocabulary game, Getting to Know Credit Cards terms, using the definitions at the Credit section of Practical Money Skills' website. practicalmoneyskills.com/ff12

- Split the words between two teams and give teams two minutes to write down terms on the front of index cards and short definitions in the back.
- As the facilitator, you can have student teams take turns each pulling a card; then guess either the term based on the definition or the definition based on the term.

Activity: True Cost of Credit

Share: Credit cards can be powerful financial tools for you and your family, and as with all financial products, they need to be used carefully. A credit card allows you to purchase necessary items now and pay later.

Module Section Outline with Facilitator Script, cont.

Group Debrief: Discuss how a high APR and only making minimum payments lead to paying higher amounts over time. Outline the responsibilities that come with credit cards.

Credit Scores: Why the Numbers Matter

Ask: Pose these questions to students: How many of you have heard of the term credit score? What is a credit score? Take a few responses/guesses.

Share: After you have asked your students whether they've heard the term credit scores, share facts about how credit scores are calculated. A credit score is a three-digit number that represents our creditworthiness. It scores how likely we are to repay debts. The higher our score, the more lenders trust our ability to repay funds. Scores can range between 300 and 850. (For older students, add the following: Credit scores have been used for decades to measure individuals' ability to handle debt. When you apply for credit, lenders determine your credit risk by examining a number of factors, including your credit scores from companies like FICO and VantageScore. Share the 5 C's of credit with students to help them understand how they can build creditworthiness.

Ask: What things do you think are used to calculate a credit score?

Share: Credit score calculations are based on a review of your credit report. Your credit report, like a football player's stats or a student's report card, shows how you've handled tasks. The primary factors considered are your payment history, how much you owe, the length of your credit history, the different types of credit you have used, and new applications for credit.

Activity: Choose Your Own Adventure

Ask: Ask students to imagine their future selves as one of the following characters — 19-year-old Jamie or 26-year-old Malcolm. Have them turn to page 10 of their Student Activities guide for the Choose Your Own Adventure activity. Explain to students that if they don't pay their loan payments on time, it can affect their credit scores. Introduce each scenario as the story of a character; ask students to predict if the person's credit score is likely to be poor (below 580), fair (580-669), good (670-739), or very good (740+). Students can work in pairs or individually for this activity.

Quick Tips: Have students discuss what actions each of the character's took that helped or hurt their credit. (Malcolm is paying his bills on time and building a higher score. Jamie has a lot of credit card debt and doesn't always pay bills on time, which is creating a lower score.)

Share: Emphasize that our track record of decision-making (character), our current financial situation (capital), our ability to pay back debt (capacity), property or assets we have that can be put up if required by a lender (collateral), and the state of the economy (conditions) all factor into our creditworthiness.

1. **Character.** A lender may decide whether you are honest and reliable to repay debt, based on your credit history. Lenders are likely to look at your credit use, bill payment, residential history, and how

Module Section Outline with Facilitator Script, cont.

long you've worked at your current workplace.

The most effective way to strengthen your credit reliability is to make payments on time. Many credit card companies offer free, automatic alerts to help you keep track of your balances, payment due dates, payment history, and purchase activity.

2. **Capital.** A lender will want to know if you have valuable assets, such as real estate, personal property, investments, or savings, with which to repay debt if income is unavailable.
3. **Capacity.** This refers to your ability to pay off debt. Lenders will look to see if you have been working regularly in an occupation that is likely to provide enough income to support your credit use. They may look at your salary, check whether you have pre-existing loans or debts, and assess whether you have family members who depend on your earnings.
4. **Collateral.** A lender may require you to put up some form of collateral — a property or asset — for certain types of loans like auto loans. When you take out a car loan, the vehicle you buy is typically used as collateral for the loan.
5. **Conditions.** This refers to the condition of the economy and how it may affect your ability to repay the loan.

Share: To predict your financial future, many businesses look at your financial past through your credit report. A credit history is a profile within a credit report that shows how you've handled money in the past. Your credit report is kept on file by three independent credit bureaus: Experian, TransUnion, and Equifax.

The Credit History Practical Money Guide (practicalmoneyskills.com/ff14) is a tool that shows what kinds of factors are included in our credit report and gives practical tips for keeping credit strong. Display the guide to the class, and note what outside parties are legally entitled to see our credit report.

Who can see your credit report?

- Potential employers
- Banks and credit unions
- Credit card issuers
- Landlords
- Auto financing companies
- Insurance companies

Closing: Group Discussion

Quick Tips: Have students identify one simple rule of thumb to help them remember how to use credit responsibly. What rule do students think would be wise?

Optional Post-Test: Have students turn to page 9 of their Student Activities guide to take the optional Post-Test.

Lesson 4 Credit: Answer Keys

> Credit Pre- and Post-Test

> Choose Your Own Adventure handout

> True Cost of Credit handout

Credit Pre- and Post-Test

Directions: Have students answer the questions with the most appropriate answer, noting a, b, c or d.

Answer Key

1. The best way to build your credit score is to avoid borrowing money.

a. True

b. False

2. If someone only pays the minimum credit card payment, they will owe interest on the money borrowed.

a. True

b. False

3. The faster you pay back the money you borrow, the lower the amount of interest you will pay.

a. True

b. False

4. You are not responsible for late fees on your credit card during vacation.

a. True

b. False

5. A good way to begin building credit is:

a. Pay bills on time

b. Open and pay off a loan

c. Maintain a credit card balance that is less than 10% of your credit limit

d. All of the above

Choose Your Own Adventure

Your credit score is a number between 300 and 850, assigned to you by a credit bureau, that helps lenders decide how creditworthy you are — the higher the score, the lower the risk. Because credit can affect many important aspects of your life, getting and keeping your score as high as possible is vitally important.

Check out 10 Ways to Keep Your Credit Strong: practicalmoneyskills.com/ff20

Directions: Ask students to imagine their future selves as one of the following characters — 19-year-old Jamie or 26-year-old Malcolm. Have them turn to page 10 of their Student Activities guide for the Choose Your Own Adventure activity. Explain to students that if they don't make their loan payments on time, it can affect their credit scores. Introduce each scenario as the story of a character; ask students to predict if the person's credit score is likely to be poor (below 580), fair (580-669), good (670-739), or very good (740+).

Answer Key

Scenario one:

At 26 years old, Malcom is working hard to save for his first home. Each month he pays his car loan payment on time.

(Likely good or very good)

Scenario two:

At 19 years old, Jamie is working to buy a car. Jamie really likes shopping and has quite a bit of credit card debt; she and sometimes pays bills on time.

(Likely poor or fair)

True Cost of Credit

If you don't pay off your credit card balance every month, the interest assessed on your account means you may be paying more than you expect. And if you spend beyond your means, the resulting interest and debt can become significant.

See how much extra you might pay on a $100 credit card purchase with varying interest rates, depending on your payment amount each month.

Use the Cost of Credit financial calculator: practicalmoneyskills.com/ff15

Directions: Ask students to review each scenario and answer questions on how long it will take to pay the loan off and how much they will pay in finance charges. You can solve each problem using paper and a pencil or the Cost of Credit calculator tool listed above.

Answer Key

Scenario 1

Purchase: $100 on credit card for new sports equipment

Monthly payment: Minimum balance of $40

Credit card APR (interest rate charged): 10%

How long will it take you to pay off? *3 months*

How much will you pay in finance charges (interest fees)? *$1.48*

Scenario 2

Purchase: $100 on credit card for new video game and downloadable content

Monthly payment: $20

Credit card APR (interest rate charged): 15%

How long will it take you to pay off? *6 months*

How much will you pay in finance charges (interest fees)? *$3.91*

Scenario 3

Purchase: $100 on credit card for clothes

Monthly payment: $10

Credit card APR (interest rate charged): 25%

How long will it take you to pay off? *12 months*

How much will you pay in finance charges (interest fees)? *$13.30*

Glossary of Terms

Have students study this list of personal finance terms to help warm up before playing Financial Football. By mastering these terms, students will have a better opportunity to answer questions in the game correctly and score.

Annual fee: The once-a-year cost of having a credit card. Some credit card providers offer cards with no annual fees.

Annual percentage rate (APR): The yearly interest rate charged on outstanding credit card balances.

Balance: In personal banking, balance refers to the amount of money in a savings or checking account. In credit, balance refers to the amount of money owed.

Capacity: This refers to your ability to pay off debt.

Capital: Wealth in the form of money or property.

Character: A lender's assessment of your reliability to repay debt based on your credit history.

Collateral: A property or asset pledged as security for repayment of a loan, to be forfeited in the event of a default.

Compound interest: Compound interest (or compounding interest) is interest calculated on the initial principal and also on the accumulated interest of previous periods of a deposit or loan. A savings account earns interest every day. Each time your interest compounds, it gets added back to your account and becomes part of your principal. With more principal, the account earns even more interest, which continually compounds into new principal.

Conditions: This refers to the condition of the economy and how it may affect your ability to repay the loan.

Cost-benefit analysis: Analyzing whether the cost of an item is more than, equal to, or less than the benefit that comes from its purchase.

Credit: An agreement by which a borrower receives something of value now and agrees to pay the lender at a later date.

Credit bureau: A reporting agency that collects information on consumer credit usage. There are currently three main credit bureaus in the United States: Equifax, Experian, and TransUnion.

Credit card: Card issued by a bank or other business for purchases using borrowed funds to be paid back later.

Credit history: A record of an individual's past borrowing and payments.

Credit limit (credit line): The maximum dollar amount that can be charged on a specific credit card account.

Credit rating: A financial institution's evaluation of an individual's ability to manage debt. It's crucial to have a good credit rating if you want to borrow money or apply for a line of credit, such as a credit card. Your credit rating can also impact the cost of some insurance and can be a hiring factor for some employees and a rental agreement factor for some landlords.

Credit report: A document outlining an individual's credit history, for use by credit card issuers and others considering providing you with a loan.

Credit reporting agency: A company that compiles and provides information to creditors to facilitate their decisions about extending credit.

Glossary of Terms, cont.

Credit score: A credit score is a numerical expression primarily based on credit report information typically sourced from credit bureaus. There are may different credit scoring companies; however, most credit score ranges are from 300 to 850.

Creditor: A person or business to whom money is owed.

Creditworthiness: An analysis made by a lender about a consumer's riskiness as a borrower.

Debt: The state of owing money to another individual or business, or the amount of money borrowed.

Debt load: The sum total of all the money you owe.

Debt-to-income ratio: A calculation comparing the amount you owe to the amount you earn. Debt-to-income ratio may be used to see how much debt you can afford to take on.

Finance: To borrow funds for the purpose of a purchase.

Finance charge: Fees assessed from borrowing funds for the purpose of a purchase.

Fixed rate: A fixed rate does not fluctuate over the length of the loan or investment term.

Good debt: The concept that sometimes it is worth taking on certain types of debt in order to benefit financially in the long run. Common examples include college education debt and real estate.

Grace period: The period of time after a payment deadline when the borrower can pay back the borrowed money without incurring interest or a late fee.

Guaranteed interest rate: The minimum interest rate an investor or borrower can expect from an issuing company.

Interest: A charge for borrowed money, generally a percentage of the amount borrowed.

Interest rate: The rate at which a borrower pays interest for borrowing an item or money, or the percentage rate earned on a given investment.

Introductory rate: An interest rate offered by lenders in the initial stages of a loan. These rates are often set much lower than standard rates in order to attract new borrowers. Introductory rates, sometimes called teaser rates, are most common in the credit card industry.

Loan term: The period of time during which a loan is active.

Minimum balance: A specific amount of money that a bank or credit union requires in order for you to open or maintain a particular account without paying maintenance or minimum balance requirement fees.

Minimum payment: The minimum amount of money that you are required to pay on your credit card statement each month in order to keep the account in good standing.

Payment history: A record of monthly payment status on an individual's credit report, listed since the time the accounts were established.

Variable interest rate: An interest rate that fluctuates based on market changes.