



## UNDERSTANDING CREDIT

### Key concepts

Borrowing money (credit), credit ratings, evaluating credit card companies

### Summary

This lesson introduces how to obtain credit, and maintain good practices with credit, which will lead to establishing a good credit rating

### Overview & Lesson Objectives

This lesson is intended for high school students in ninth through twelfth grades. The lesson teaches the concept of credit and allows students to explore it with real life situations. Each activity guides students in becoming aware of how credit is obtained, retained, and used in a responsible manner.

Students will be able to:

- Define credit
- Describe how to get credit
- Describe criteria for a good credit rating
- Recognize and explain why banks/institutions offer credit to their customers
- List perks offered by credit card companies
- Compare/contrast borrowing money with borrowing an object

Time Allocation:

15 – 20 Minute Prep

35 – 40 Minutes Engagement

### Materials:

- 3-5 pictures of items students are eager to possess
- Copies of play money
- Book to represent the library analogy
- Copies of Venn Diagram (one per student)



## Lesson Begins: Setting the Stage

**Background Builder #1:** Show students 3-5 colorful pictures of items that students of this age would like to possess. For example: Laptop, smart phone, concert tickets, etc. Or create a 3-5 item T-chart on the board. Give each student play money and have them write their name on a bill and have them place it under the item they want, thereby showing which item is most in demand.

**State the Objective:** tell the students what they will be able to do upon conclusion of the lesson.

*“Today we are going to learn about credit which will help you in the future when you decide to make purchases and buy expensive items for which you do not have enough cash to buy or afford all at once. You should be able to define credit and describe how to get it. You should also be able to explain why banks offer credit and what incentives they may offer you to entice you to borrow.”*

## The Lesson Procedure

Credit is when the bank agrees to buy a product for you and trusts that you will pay them back over time. Credit can be in the form of a credit card or a loan. A loan lets you buy something expensive that you really want such as a boat, a car, an education, or even a home.

In order to get credit you have to apply or ask for it. The bank will give you credit if you are approved. But first they have to run a credit report to find out how you’ve handled money in the past. There are other factors that go into getting approved for a loan.

You should also know that the bank will put a limit on how much you can spend/borrow to protect you from taking more than you’re able to pay back. If the bank decides to offer you credit, you may have to pay a fee every year to use this service.

The bank lends you money because it gives them an opportunity to earn money. If you decide to take a long time paying back the money you borrow, you have to pay back extra which is called interest.

- **Credit companies sometimes offer you reward programs for borrowing money from them.** Some companies offer point programs that can be put towards airline tickets, shopping or cash back. (Note, in order to earn points in these programs, you have to spend money, so be careful how much you spend on a credit card as you will have to pay it back).
- **Getting credit protection is a great idea!** There are two types of protection you may want to consider. One involves protecting you in case your credit card is lost or stolen and someone else makes purchases with it. The other ensures your debt gets paid in case you become unable to work and generate an income.

*Draw a Venn diagram on the board to compare a library with an institution providing credit. The analogy will give students something concrete to attach meaning to when learning this new concept.*



***“Let’s compare borrowing a library book with borrowing money to help you understand credit.”***

Respond and record ideas generated for the diagram. Lead students if necessary to discover the following points as well as others that are shared between the bank and library.

- You can borrow a book/money because the librarian/bank trusts that you’ll give it back.
- As long as you give it back within a week/month that’s all you owe.
- If you keep the book/money longer, you have to pay the library/bank money for each day that it’s kept past the due date.
- You may get good things in return for going to the library/bank such as a bookmark, a key chain, a lollipop, etc.
- Both entities want you to borrow.
- Both want to make money.
- Both want you to give the item back within a reasonable amount of time so that someone else can borrow the book or money.

Ask students to respond to the following question on a piece of paper. **“How do you suppose getting lunch might relate to getting credit?”** Allow 5-7 minutes for them to generate a response. Then ask students to share their responses; guide students to uncover the idea of getting lunch based on credit when you lose or forget your lunch money without having a packed lunch to eat.

## Lesson Closes

Review the concept of credit including how it is obtained and why banks/institutions offer credit. Please select any number of activities from the section entitled “Additional Engagement Opportunities/Resources” in order to encourage students to work with, relate to, and retain the presented information.



## Additional Engagement Opportunities / Resources

### Pair and Share

Group students into pairs and ask each pair to exchange two or three new things learned during the day's lesson. Call on select pairs to share with the whole class what has been learned.

#### Sample Questions:

- Give an example of something you might buy with credit.
- Define credit.
- Who gives credit?
- How does a bank decide whether to give you credit?
- Does credit cost anything? Explain.
- What is a credit card limit?
- Why should banks place a limit on credit?
- When do you have to pay interest?
- What can happen if the amount you owe to the bank is not paid back on time?
- How can credit be used in your life now or in the future?
- Why should you have credit protection?

Student generated questions should also be encouraged in place of or in addition to the ones listed above.

**Misinformation:** Quote information from the day's lesson purposely erroneous. Call on various students to restate the information correctly.

#### Samples:

- Borrowing Credit from a bank or institution is always free.
- In order to obtain credit, you must put down a deposit.
- With Rewards Programs, you have to purchase items or airline tickets

**What's left out?** Supply students with statements that have some information missing. This can be done verbally or it can be done on a board. Ask students to provide the missing information.

#### Samples:

- Credit can be in the form of a \_\_\_\_\_ or loan.
  - Answer is "Credit Card"
- You will have to pay the bank back extra money called \_\_\_\_\_ if you take a long time repaying your balance.
  - Answer is "interest"
- When applying for credit, the bank will have to pull a \_\_\_\_\_ on your history of handling money in the past.
  - Answer is "credit report".



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# Financial Education



## Educational Standards

### **National Council of Teachers of Mathematics Principles and Standards for School Mathematics, 2000**

Connections – (Students will) Recognize and use connections among mathematical ideas.

Connections – (Students will) Recognize and apply mathematics in contexts outside of mathematics.

### ***NJ Core Curriculum Content Standards for Personal Financial Literacy 2014:***

*Standard 9.1: 21<sup>st</sup> Century Life and Careers*

*9.1.C. Credit and Debt Management: 9.1.12.C.5*

### ***National Standards in K– 12 Personal Finance Education (from Jump\$tart Coalition) 2017:***

*Financial Decision Making:*

*Standard 1, “Recognize the responsibilities associated with personal financial decisions.”*

*Credit and Debt:*

*Standard 2, “Summarize a borrower’s rights and responsibilities related to credit reports.”*



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# Financial Education



## Venn Diagram

In a Venn diagram, two people, places, or things are compared and contrasted. Two overlapping circles are most often used to contain the comparisons, but other shapes may be used. The shared portion of both circles will list qualities that are held in common, while the opposite portions list characteristics unique to that subject.

A sample Venn diagram follows:



