Module Target Learning Outcome

Control personal credit and debt.

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<th>Activities</th>
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| 2-1 Using Credit | **Weigh the benefits and risks of borrowing.**  
- Discuss why people borrow.  
- Give examples of acceptable and unacceptable situations to use credit.  
- Explain how borrowing impacts spending power. | **Task:** What Do You Think?  
Activity 2.1: Borrowing Fitness Test  
Activity 2.2: What is the Reason?  
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Assessment: Role Play | 3-8   |
| 2-2 Credit Costs | **Compare the costs and terms of borrowing options.**  
- Give examples of how credit is used.  
- Identify typical costs and terms of credit.  
- Calculate the cost of using credit. | **Task:** Pick an Option  
Activity 2.3: Simply Tell the Total  
Activity 2.4: What is the Average Payment?  
Activity 2.5: Choose the Best Deal (Optional)  
Assessment Challenge 2-A: DECIDE the Best Deal for You  
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| 2-3 Credit Rating | **Start the journey to establish a good credit rating.**  
- Outline the credit application process.  
- Describe what lenders consider when deciding whether to approve or deny a credit request.  
- Explain how creditors investigate someone’s borrowing habits. | **Task:** Can I Borrow ...?  
Task: Credit Application  
Task: Applications for Review  
Activity 2-8: Put Your Best Foot Forward  
Assessment Challenge 2-B: Building Creditworthiness  
Taking it Home: Investigate Late Payment Penalties  
Taking it Home: Review a Credit Report | 23-31 |
| 2-4 Rights and Responsibilities | **Explore the rights and responsibilities of borrowers and lenders.**  
- Explain a borrower's legal rights and responsibilities when agreeing to a contract.  
- Recite guidelines for borrowing limits.  
- State where to get help with credit issues. | **Activity 2.6:** Good and Bad Uses of Credit  
Activity 2.7: Know the Limit  
Activity 2.9: Rights and Responsibilities of Borrowing  
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Taking it Home: Family Contract | 16-34 |
| 2-5 Identity Fraud | **Protect yourself from identity fraud.**  
- Give examples of identity fraud.  
- Describe how to address problems of fraud.  
- Give examples of ways to protect against fraud. | **Task:** What’s in Your Wallet?  
Activity 2.10: Take Preventative Action  
Assessment: Protection Identity Checklist  
Taking it Home: Test ID Theft Savviness  
Taking it Home: Online Privacy Settings | 34-38 |
Introduction to Lessons

Lesson 2-1: Using Credit

Credit cards, auto loans, home mortgages, pawn shops ... you’ve probably heard a lot about debt over the years—good and bad. But debt itself is actually neither. It’s merely a tool to buy something now and pay for it later. How we use debt is what’s good or bad.

In this lesson, students assess reasons to use or not use credit.

Lesson 2-2: Credit Costs

Even if you don’t need to borrow money today, you’ll soon be flooded with tempting offers for car loans, credit cards, cash-advance loans, cellphone service, and more. Boosting your borrowing IQ now will prepare you to make smarter decisions whenever you decide to take the credit plunge.

In this lesson, students calculate the costs of borrowing options.

Lesson 2-3: Credit Rating

Would you want to loan money to someone who can’t or won’t pay you back? And you probably wouldn’t want to loan money to someone who took forever to pay you back.

Lenders, too, don’t want to loan money to people who aren’t responsible about paying it back. If they don’t know anything about someone who is asking to use credit, the lenders have methods to predict if the money will be repaid and paid on time.

In this lesson, students get an inside peek at what lenders look for when someone applies for a loan or a credit card. This will help students take steps now to make a positive impression later for a potential lender.

Lesson 2-4: Rights and Responsibilities

You probably don’t think of a loan or credit-card application as a contract, but it is. By signing on the dotted line, you’re entering into an agreement between you and the lender about what each of you must or must not do. You have responsibilities you have to meet to uphold your end of the contract, but so does your lender.

Your responsibilities include not taking on more debt than you can afford. Find out how much is too much and learn more about the legal rights and responsibilities of borrowing.

In this lesson, students use what they learn to write a code of conduct for borrowing.

Lesson 2-5: Identity Fraud

Everyone needs to take precautions to protect personal information from being used by others without permission. Identity theft and fraud are big business—costing victims, companies, and governments billions of dollars a year. Even if you are able to fix a fraud problem without losing money, it will take you more time than you want to spend to gather evidence and inform others about the issue.

In this lesson, students plan ways to protect themselves from being victims of identity fraud.
OVERVIEW

Credit cards, auto loans, home mortgages, pawn shops ... you’ve probably heard a lot about debt over the years—good and bad. But debt itself is actually neither. It’s merely a tool to buy something now and pay for it later.

How we use debt is what’s good or bad.

This lesson will help you assess reasons to use or to not use credit.

LEARNING OUTCOMES

In this lesson students will weigh the benefits and risks of borrowing. Along the way they will:

☑ Discuss why people borrow.
☑ Give examples of acceptable and unacceptable situations to use credit.
☑ Explain how borrowing impacts spending power.

Students will use what they learn to recognize situations when it makes sense to either use credit or avoid using credit.

PREPARATION

- Order a Module 2 Student Guide for each student. (The Guide is also available online to download.)
- Preview the lesson PowerPoint presentation, learning tasks, and Module 2 Student Guide, particularly pages 3-8 and 18-19.
- Print or download the Student Learning Plan and handouts for this lesson so each student has copies.

WHAT YOU WILL NEED

- Module 2 Student Guide (pages 3-8, 18-19)
- PowerPoint Presentation 2-1
- Student Learning Plan 2-1
- Task: What Do You Think? (Student Guide, page 4)
- Learning Activity 2-1: Borrowing Fitness Test
- Learning Activity 2-2: What is the Reason?
- Task: News Summary (Further Study)

NOTES

Approximate time: 45 minutes (minimum) - 90 minutes (with extension activities)
## LEARNING TASKS

1. **What do you think are good reasons to borrow money?**
   - **PROCEDURE**
     - [Slide 2] Have students first read and respond individually to the **What Do YOU Think?** questions (Student Guide, page 4). Arrange for the students to share and discuss their responses with a nearby partner.
     - As a whole class, survey responses to each question allowing students to briefly justify their responses. Note: The class will revisit the list later in the lesson to reach final consensus; at this time just gather responses and comments from students to reference throughout the rest of the lesson.
     - (Alternative tactic) You can choose do this as a paper and pencil activity, a clicker system activity, a web-based survey activity, or as a visual survey. Should you select the visual survey option, print off each statement in large print and put it on its own paper or poster. Underneath each statement, make two columns, one for “true” responses and one for “false” responses.
   - [Slide 3] Transition into the lesson by telling the students that they will learn about the reasons for using credit. Preview the Learning Outcomes in the Student Learning Plan. By the end of this lesson, the students should be able to recognize situations when it makes sense to either use credit or avoid using credit.
   - [Slide 4] Introduce Mariah and Jesse, the young people featured in the Student Guide, who will learn about borrowing and credit along with the students. (Student Guide, page 3)

2. **Evaluate your borrowing habits by completing Activity 2.1: Borrowing Fitness Test.**
   - **PROCEDURE**
     - [Slide 5] Point out to the students that, although they might not yet be able to take out a loan or get their own credit, they are already practicing good and bad borrowing habits. Arrange for students to complete **Activity 2.1: Borrowing Fitness Test** (Student Guide, page 6).
     - Debrief by asking students to voluntarily share strategies they might already use to establish a reputation as a responsible borrower. Use this to transition into a discussion about how these same types of borrowing habits apply when they choose to use credit in the future for such things as car loans, credit cards, cellphone service, and cash-advance loans.

## TEACHING NOTES

**TIME ESTIMATE:** 5 minutes

**MATERIALS**

- Module 2 Student Guide
- Student Learning Plan 2-1
- Student Guide pages 3-4
- SLIDES 2 – Good or Bad 3 – Preview 4 – Meet Mariah and Jesse
- ACTIVITY What Do YOU Think, page 4

**TIME:** 5 minutes

**STUDENT GUIDE**

- Pages 6-7
- SLIDE 5 – Using Credit
- ACTIVITY Activity 2.1: Borrowing Fitness Test
### LEARNING TASKS

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<table>
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<tbody>
<tr>
<td>3. Give examples of ways people use credit. Complete Activity 2.2: What is the Reason?</td>
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<td>4. Share a story about a time you made an impulse purchase that you regretted later. Have you ever been glad that you waited to make a purchase?</td>
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### TEACHING NOTES

<table>
<thead>
<tr>
<th>PROCEDURE</th>
<th>TIME: 10 minutes</th>
<th>MATERIALS</th>
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<tbody>
<tr>
<td>[Slide 6] Illustrate how credit can potentially contribute to economic growth because money is circulated between consumers, businesses, and workers (Student Guide, page 8). Businesses often borrow money to start businesses, expand operations, or develop new products or services.</td>
<td></td>
<td>STUDENT GUIDE Pages 5-8, 18-19</td>
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<tr>
<td>[Slide 7] Introduce ways that individuals use credit to buy now and pay later for things they need and want (Student Guide, pages 18-19).</td>
<td></td>
<td>SLIDES 6 – Credit in the Community 7 – Credit Options 8 – Jesse’s Plan</td>
</tr>
<tr>
<td>Guide student to read Reap the Rewards for reasons why individuals borrow money rather than pay cash for purchases (Student Guide, page 7). Arrange for students to work independently or in pairs to complete Activity 2.2: What is the Reason? Direct the students to compare their responses with a partner or another student team.</td>
<td></td>
<td>ACTIVITY Activity 2.2: What is the Reason</td>
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<tr>
<td>Debrief by pointing out that a person’s reason to borrow might seem acceptable at the time, but the borrower must take into consideration how future spending options will be limited by each borrowing decision. In essence, each decision to borrow money in the present reduces the amount of funds someone has available for later purchases.</td>
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<td>[Slide 8] Money that needs to be repaid is something to include in a spending plan. This will require adjusting allocations for other expenses. Ask the students to suggest how Jesse might adjust his spending plan when he has to make $200 monthly payments for a truck loan without increasing the total expense amount.</td>
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<th>PROCEDURE</th>
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<tr>
<td>In partners or as a whole class, have students share stories of times when they didn’t wait to make a purchase and got burned or did wait to make a purchase and were rewarded.</td>
<td></td>
<td>STUDENT GUIDE Page 40</td>
</tr>
<tr>
<td>[Slide 9] Explain the difference between instant gratification (an unwillingness to give up something now in return for something later) and delayed gratification (A willingness to give up something now in return for something later). Ask students how having a credit card would impact their ability to delay gratification.</td>
<td></td>
<td>SLIDES 9 – Now or Later 10 – Stop Drop and Think Before Using Credit Test</td>
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<tr>
<td>LEARNING TASKS</td>
<td>TEACHING NOTES</td>
<td>MATERIALS</td>
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| 5. Mariah’s mom doesn’t think that Mariah should have a credit card. Role play a conversation between Mariah and her mother about the reasons to get or not get a card. | **PROCEDURE**  
- [Slide 11] Arrange the class into small groups of four or five students, or ask two volunteers to role play for the entire class. Designate who will take on the role of Mariah and who will portray Mariah’s mother. As time allows, assign students to help either “Mariah” or the “mother” identify two to three talking points to argue the case either for or against a credit card. Stage the role play either in small groups or a whole class.  
- Debrief by asking the students if there is additional information they need to help them make a case for or against getting a credit card. Point out that they will learn more in future lessons about the pros and cons of using credit.  
- As time allows, revisit the **What do YOU Think? Task** (Student Guide, page 4) to see if students have different responses compared to earlier in the lesson. | **TIME:** 15 minutes  
**STUDENT GUIDE** Page 4  
**SLIDE 11 – Role Play**  
**ACTIVITY**  
What do YOU Think?, page 4 |
| **REFLECTION** | **PROCEDURE**  
- Assign students to reflect on their responses to **Activity 2.1: Borrowing Fitness Test.** | **SLIDE 12 – Reflection** |
| **ALTERNATE ACTIVITY** | **PROCEDURE**  
- One thing that many students crave is a car—the symbol of independence. It can be the most effective means to convey lessons regarding finance. Try it out—compare credit to a car. In small groups, direct the students to brainstorm the ways that credit is like a car. Set up the task with the following scenario:  

_Mariah’s mom is not sure she even understands what credit is and asks Mariah to compare it to something else. Mariah has a hard time coming up with a comparison. Help her out. Complete the following analogy: “Credit is like a car because ...”_  

**NOTE:** An analogy is a comparison of similarities of features or aspects between two things that might otherwise be considered dissimilar. Analogies can be an effective way to clarify an abstract idea.  
If students need help getting started, use the following example as a prompt: “Both are tools that can get you to a goal,” or “Both need an annual inspection to make sure it works for you.” Suggest that the students list out what they know about credit to start the brainstorm. | **SLIDE 13 – Analogy**  
**ACTIVITY**  
Poster paper markers |
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<td>PROCEDURE</td>
<td>ACTIVITIES</td>
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<tr>
<td>Find a news story that relates to the risks or rewards of borrowing. Summarize two or three new things that you learned from the story.</td>
<td>In-class or out-of-class assignment</td>
<td>Task: News Summary</td>
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<td>Internet</td>
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<td>News stories</td>
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<td></td>
<td>☐ Direct students to locate a news story that relates to the risks or rewards of borrowing. Arrange for students to share what they find within a written or verbal summary. Use the News Summary Task handout to guide student work.</td>
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<td>RESOURCES: Students can get local, state, and national news from the school library, the town/city library, and news websites. If they see or hear a news story on television or the radio, chances are pretty good that the radio or television station has a website that will also contain that story. If possible, have students bring a copy of the story in with their summary—they can cut it out, make a copy, or print it from the website.</td>
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**REFLECTION**

Reflect on your answers for Activity 2.1: Borrowing Fitness Test. Which one area would you say is your weakest? Write down two things you can do to strengthen your ability for that one area of weakness.

**FURTHER STUDY**

Find a news story that relates to the risks or rewards of borrowing. Summarize two or three new things that you learned from the story.
Using Credit

TODAY YOU WILL EXAMINE REASONS WHY PEOPLE USE CREDIT.

☐ Display this slide as you kick off the lesson.
Have students first read and respond individually to the **What Do YOU Think?** questions (Student Guide, page 4). Arrange for the students to share and discuss their responses with a nearby partner.

As a whole class, survey responses to each question allowing students to briefly justify their responses. Note: The class will revisit the list later in the lesson to reach final consensus; at this time just gather responses and comments from students to reference throughout the rest of the lesson.

(Alternative tactic) You can choose do this as a paper and pencil activity, a clicker system activity, a web-based survey activity, or as a visual survey. Should you select the visual survey option, print off each statement in large print and put it on its own paper or poster. Underneath each statement, make two columns, one for “true” responses and one for “false” responses.
Transition into the lesson by telling the students that they will learn about the reasons for using credit. Preview the Learning Outcomes in the Student Learning Plan. By the end of this lesson, the students should be able recognize situations when it makes sense to either use credit or avoid using credit.
Meet Mariah and Jesse

Mariah – junior
• Lives at home
• Part-time job
• Responsible for own expenses
• Saving for college
• Wants her own credit card

Jesse – sophomore
• Lives at home
• No job now
• Saving to buy a truck when he gets license

Student Guide, page 3

☐ Introduce Mariah and Jesse, the young people featured in the Student Guide, who will learn about borrowing and credit along with the students.
Point out to the students that, although they might not yet be able to take out a loan or get their own credit, they are already practicing good and bad borrowing habits. Arrange for students to complete Activity 2.1: Borrowing Fitness Test.

Debrief by asking students to voluntarily share strategies they might already use to establish a reputation as a responsible borrower. Use this to transition into a discussion about how these same types of borrowing habits apply when they choose to use credit in the future for such things as car loans, credit cards, cellphone service, and cash-advance loans.
Illustrate out how credit can potentially contribute to economic growth because money is circulated between consumers, businesses, and workers. Businesses often borrow money to start businesses, expand operations, or develop new products.
Introduce ways that individuals use credit to buy now and pay later for things they need and want.

Guide student to read **Reap the Rewards** for reasons why individuals borrow money rather than pay cash for purchases. Arrange for students to work independently or in pairs to complete **Activity 2.2: What is the Reason?** Direct the students to compare their responses with a partner or another student team.

Debrief by pointing out that a person’s reason to borrow might seem acceptable at the time, but the borrower must take into consideration how future spending options will be limited by each borrowing decision. In essence, each decision to borrow money in the present reduces the amount of funds someone has available for later purchases.
Money that needs to be repaid is something to include in a spending plan. This will require adjusting allocations for other expenses. Ask the students to suggest how Jesse might adjust his spending plan when he has to make $200 monthly payments for a truck loan without increasing the total expense amount.
In partners or as a whole class, have students share stories of times when they didn’t wait to make a purchase and got burned or did wait to make a purchase and were rewarded.

Explain the difference between *instant gratification* (an unwillingness to give up something now in return for something later) and *delayed gratification* (A willingness to give up something now in return for something later). Ask students how having a credit card would impact their ability to delay gratification.
If time allows, revisit or introduce the Stop Drop and Think test presented in Module 1 as a way to test whether or not a borrowing decision makes sense at the time of the purchase, in particular asking the final question about what will be given up as a result of using credit for a particular purchase.
Arrange the class into small groups of four or five students, or ask two volunteers to role play for the entire class. Designate who will take on the role of Mariah and who will portray Mariah’s mother. As time allows, assign students to help either “Mariah” or the “mother” identify two to three talking points to argue the case either for or against a credit card. Stage the role play either in small groups or a whole class.

Debrief by asking the students if there is additional information they need to help them make a case for or against getting a credit card. Point out that they will learn more in future lessons about the pros and cons of using credit.

As time allows, revisit the What do YOU Think? Task to see if students have different responses compared to earlier in the lesson.
Assign students to reflect on their responses to Activity 2.1: Borrowing Fitness Test.
Alternate Activity:

- One thing that many students crave is a car—the symbol of independence. It can be the most effective means to convey lessons regarding finance. Try it out—compare credit to a car. In small groups, direct the students to brainstorm the ways that credit is like a car. Set up the task with the scenario displayed on the slide.

NOTE: An analogy is a comparison of similarities of features or aspects between two things that might otherwise be considered dissimilar. Analogies can be an effective way to make an abstract idea more complete.

If students need help getting started, use the following example as a prompt: “Both are tools that can get you to a goal,” or “Both need an annual inspection to make sure it works for you.” Suggest that the students list out what they know about credit to start the brainstorm.
**OVERVIEW**

Credit cards, auto loans, home mortgages, pawn shops ... you’ve probably heard a lot about debt over the years—good and bad. But debt itself is actually neither. It’s merely a tool to buy something now and pay for it later.

How we use debt is what’s good or bad.

This lesson will help you assess reasons to use or not use credit.

**LEARNING OUTCOMES**

In this lesson you will weigh the benefits and risks of borrowing. Along the way you will:

- Discuss why people borrow.
- Give examples of acceptable and unacceptable situations to use credit.
- Explain how borrowing impacts spending power.

Use what you learn to recognize situations when it makes sense to either use credit or avoid using credit.

<table>
<thead>
<tr>
<th>LEARNING TASKS</th>
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<tr>
<td><em>1.</em> What do you think are good reasons to borrow money? Participate in a discussion to evaluate situations that involve borrowing money.</td>
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<tr>
<td><em>2.</em> Evaluate your borrowing habits by completing Activity 2.1: Borrowing Fitness Test.</td>
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<tr>
<td><em>3.</em> Give examples of ways people use credit. Complete Activity 2.2: What is the Reason?</td>
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<tr>
<td><em>4.</em> Share a story about a time you made an impulse purchase that you regretted later. Have you ever been glad that you waited to make a purchase?</td>
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<td><em>5.</em> Mariah’s mom doesn’t think Mariah should have a credit card. Role play a conversation between Mariah and her mother about the reasons to get or not get a card.</td>
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</tbody>
</table>

**REFLECTION**

Reflect on your answers for Activity 2.1: Borrowing Fitness Test.

- Which one area would you say is your weakest?
- Write down two things you can do to strengthen your ability for that one area of weakness.

**FURTHER STUDY**

Find a news story that relates to the risks or rewards of borrowing. Summarize two or three new things that you learned from the story.
Activity 2.1: Borrowing Fitness Test

NAME: ___________________________ DATE: ___________________________

Directions:

Do you have what it takes to be a responsible borrower? Find out by answering the questions below.
If you answer “yes” to a question, mark an “X” in the box to the left.

Do you . . .

1. Repay money loans from friends and family before they have to ask you for it?

2. Often borrow money to pay for something you can’t afford right now?

3. Return library books and other borrowed items before they’re due and return them in good condition?

4. Frequently ask for an advance on your paycheck or allowance?

5. Replace money you borrow from your savings account or from other spending-plan funds?

6. Borrow items from your parents or siblings without asking for or getting permission first?

7. Know how much money you owe others right at this very moment?

8. Ever make monthly or weekly payments late?

The more “yes” answers you have on the odd-numbered questions and “no” answers on the even-numbered questions, the more fit you are to be a smart borrower!

If you didn’t do well, don’t worry. It’s never too late for a bad-habit makeover.
MEET MARIAH AND JESSE

Mariah is upset. Her mom said “no way!” to helping her get a credit card. Mariah pointed out that she has a part-time job at the mall to pay the bills and that she’s a junior now and will be going off to college soon—but her mom wouldn’t even discuss it.

Jesse dreads the thought of having to drive the family clunker next year when he gets his license. He doesn’t have a job, but he’s been saving for a few years and has $2,500 now, which he was hoping to use to spend on a truck—until he actually started checking out truck prices. Jesse’s older brother said their parents might agree to co-sign a loan for him if he gets a job before then.

A. What do you think is Mariah’s reason for getting a credit card?

B. What do you think is Jesse’s reason for using a loan to buy a truck?

C. Finally, what has prompted you to borrow money from friends or family?

<table>
<thead>
<tr>
<th>Reason to Borrow</th>
<th>Mariah</th>
<th>Jesse</th>
<th>Me</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Instant gratification</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Protection</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Emergencies</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Spreading out payments for expensive items</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Investments</td>
<td>☐</td>
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<tr>
<td>Credit history</td>
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<tr>
<td>Special offers and perks</td>
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Task: News Summary

NAME: _______________________________ DATE: __________

Directions:

Locate a news story that relates to the risks or rewards of borrowing. Be prepared to share what you find either as a written or a verbal summary.

Include the following information in your summary.

- News Story Title
- Story Source (name the magazine, newspaper, website the story came from)
- Specific Location (page number(s), website address)
- Date (The story should have been written or posted during the past week)
- Summary of the News Story (Answer the following questions with a complete sentence for each.)
  1. Who? (Who should the story concern? Who are the major players?)
  2. What? (What is going on? What happened?)
  3. Where? (Where did/does this happen?)
  4. When? (When did it happen? What is the timeline?)
  5. How? (How did it happen?)
  6. Why? (Why did it happen? Why are the involved people behaving a certain way?)
  7. So what? (Why should you care? How can this impact you?)

Resources:

You can find local, state and national news from the school library, the town/city library, and news websites. If they see or hear a news story on television or the radio, chances are pretty good that the radio or television station has a website that will also contain that story. If possible, bring a copy of the story to share with your summary.
OVERVIEW

Even if you don’t need to borrow money today, you’ll soon be flooded with tempting offers for car loans, credit cards, cash-advance loans, cellphone service, and more. Boosting your borrowing IQ now will prepare you to make smarter decisions whenever you decide to take the credit plunge.

This lesson will help you calculate the costs of borrowing options.

LEARNING OUTCOMES

In this lesson students calculate the costs of borrowing options. Along the way they will:

- Give examples of how credit is used.
- Identify typical costs and terms of credit.
- Calculate the cost of using credit.

Students will use what they learn to consider borrowing options for a specific situation.

PREPARATION

- Order a Module 2 Student Guide for each student. (The Guide is also available online to download.)
- Preview the lesson PowerPoint presentation, learning tasks, and Module 2 Student Guide, particularly pages 9-15.
- Print or download the Student Learning Plan for this lesson so each student has a copy.

WHAT YOU WILL NEED

- Module 2 Student Guide (pages 9-15)
- PowerPoint presentation 2-2
- Student Learning Plan 2-2
- Task: Pick an Option (Tasks 1 and 4)
- Activity 2-3: Simply Tell the Total
- Activity 2-4: What is the Average Payment?
- Challenge 2-A: DECIDE the Best Deal for You
- (optional) Calculators (Tasks 2 and 4)
- Internet, amortization calculator (Task 3)

NOTES

Approximate time: 45 minutes (minimum) - 90 minutes (with extension activities)
# Lesson 2-2: Credit Costs

## LEARNING TASKS
1. Jesse did the math on a laptop deal and realized the bargain wasn’t a bargain at all. See if you can spot a bargain from several offers.

## TEACHING NOTES
**PROCEDURE**

- TIME ESTIMATE: 5 minutes

- Read about Jesse’s laptop deal to introduce the activity (Student Guide, page 12).

- [Slide 2] Distribute the **Pick an Option task** to each student or team of students. Have students read through each purchasing opportunity and, based on a quick analysis or gut hunch, select what they think would be the better borrowing option. At this time, they will only do a quick response to fill in the left column. (Note: Students will fill in the remaining columns later in the lesson. Although there are right and wrong answers—students will perform the math during Learning Task 4 to compare the monthly and total costs for each scenario.)

- Once they are finished, relate to students that many salespeople hope that consumers will make purchasing and financing decisions based on whether something seems like a deal, rather than doing the math to see if it really is or not.

**EXTENSION:** Assign students to bring in examples of local sales flyers, brochures, or ads designed to get consumers to buy a big ticket item without thinking about the real cost of the item once it is financed. Examine the advertising and sales techniques used. Discuss the psychology of advertising.

- [Slide 3] Transition into the lesson by telling the students that they will learn about the costs of using credit. Preview the Learning Outcomes in the Student Learning Plan. By the end of this lesson, the students should be able to compare costs and terms to select credit for a specific situation.

## MATERIALS
- Module 2 Student Guide
- Student Learning Plan 2-2
- Student Guide pages 9-13
- SLIDES
  2 – Which is Better?
  3 – Preview
  4 – The Language of Credit
  5 – Adding It Up
  6 – Simple Interest
- ACTIVITY Task: Pick an Option

---

2. Listen to a presentation about the costs of using credit. Complete **Activity 2.3: Simply Tell the Total** to calculate the total costs of credit purchases.

**PROCEDURE**

- TIME: 10 minutes

- [Slide 4] Provide an explanation of credit terminology. Explain that borrowing money comes with a price. A lender is willing to extend credit because it can be profitable if the amount is repaid with interest. When deciding if using credit is worthwhile, the borrower needs to take into consideration all costs of credit and how repayment will impact the ability to meet other spending obligations. [Note: The slide example was calculated using the amortization formula, which is presented later in this lesson.]

**STUDENT GUIDE**
- Pages 9-10
- SLIDES
  4 – The Language of Credit
  5 – Adding It Up
  6 – Simple Interest
- ACTIVITY
  Activity 2.3: Simply Tell the Total
### LEARNING TASKS | TEACHING NOTES | MATERIALS
---|---|---
- [Slide 5] Provide an example of how borrowing adds costs to a purchase by sharing the experience of Jesse’s brother. Ask for answers to the questions as a transition into calculating interest.

**Answer:** Jesse’s brother will pay more than $150 for the tire. Using the simple interest formula, he will pay a total of $151.25 because he will repay the amount borrowed ($150) plus the interest charged (10%) for 30 days (1/12 year).

\[ \text{Interest} = \text{Principal} \times \text{Rate} \times \text{Time} \]

\[ I = 150 \times 0.10 \times \frac{1}{12} = 1.25 \]

- Point out that interest is the main cost involved with borrowing. Explain that payments made to repay borrowed amounts will vary depending on how the interest is calculated. This will vary due to the rate of interest, the amount borrowed, and how often interest is calculated.

- [Slide 6] Review how interest is calculated using the simple interest formula and example.

- Guide students to practice calculating interest as they complete Activity 2.3: Simply Tell the Total.

| PROCEDURE | TIME: 15 minutes |
---|---|
- [Slide 7] Point out that lenders actually use a more complex formula to calculate the average monthly payments due on loans. Explain that as the principal is paid off on a loan, interest is recalculated on the adjusted lower principal balance. Because this would be cumbersome for someone to recalculate every time a payment is due, the Amortization Calculation Formula is used to figure out the average monthly payment over the term of the loan. Knowing an average amount to be paid each month is helpful when planning a monthly spending plan or budget.

- [Slide 8] Illustrate how much of a monthly payment is applied to interest and to the principal each month using the amortization calculations. (Student Guide, page 11).

- Prompt the students to calculate the monthly amounts owed for changes in Activity 2.4: What is the Average Payment? using the amortization calculation formula (either by hand or using a financial calculator). Note: A calculation worksheet is available online for instructors to reference for both Activity 2.4 the Pick and Option Task.

##### STUDENT GUIDE
- Pages 10-11
- SLIDES
  - 7 – Average Monthly Payment
  - 8 – Amortization Chart

##### ACTIVITY
- Activity 2.4: What is the Average Payment?
- Internet, online amortization calculator (or) electronic spreadsheet software (MS Excel)
## LEARNING TASKS

4. Mariah did a good job of comparing credit card options available to her. How good were your instincts? Time to find out if you were right.

   Figure out the monthly payment, total interest paid, and total cost for several purchases by completing the *Pick an Option task*. Figure out which is the better deal. Then, choose which deal you would take, and explain why you made that choice.

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### PROCEDURE

- **TIME: 10 minutes**

- **[Slide 9]** Introduce additional credit terminology. **[Slide 10]** Review types of credit options and how payments may differ with related costs.

- **[Slides 11-12]** Illustrate ways that credit can get expensive when someone encounters a high interest rate or chooses to make minimal payments.

- Facilitate a discussion about the long-term impact of **compound interest** when minimum payments are made. Point out that each month a credit card balance is unpaid, interest is calculated on the new amount owed which includes the original amount that was borrowed and also the amount of interest that was applied to any previously unpaid balances (aka **compounding**).

- Direct the students to the *Pick an Option task* that was used earlier in the lesson. Arrange for the students to work alone, in pairs, or small groups to calculate the monthly payment amount, the total amount that will be paid and the total finance charges. (If time is pressing, assign one scenario to each person, team, or group.)

   **Note:** If the students’ math skills are strong, reinforce their abilities by guiding them to complete calculations on their own. Encourage the students to create an amortization schedule/chart using an electronic spreadsheet.

   **Note:** A calculation worksheet is available online for instructors to reference for both Activity 2.4 the Pick and Option Task.

- If time allows, have students share their answers, including which deal they would accept and why. Sometimes, the better money deal is not the right answer for an individual, especially if the monthly payment is high and goes beyond one’s income-debt ratio or puts a strain on a monthly spending plan.

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### PROCEDURE

- **In-class or out-of-class assignment**

- **[Slide 13]** Assign the students to complete **Challenge 2-A: DECIDE The Best Deal for You**. This challenge will also apply to Lesson 2-4: Risks and Responsibilities.

---

5. Pick a situation where you or your family uses credit. Complete **Challenge 2-A: DECIDE The Best Deal for You**.
### LEARNING TASKS | TEACHING NOTES | MATERIALS
--- | --- | ---
**TAKING IT HOME**<br>Compare phone calling plans to decide the best option for your family. | PROCEDURE<br>☑ Have students gather information alone or in pairs to research local options for cellphones and phone plans that are available in the community. Assign students to apply the DECIDE steps to select a phone or phone plan that works best for their needs and their budget (real or potential budget). | Out-of-class assignment<br>Internet

**FURTHER STUDY**<br>Gather information about leasing a car to compare to purchasing a car. | PROCEDURE<br>☑ Either have students conduct their own research, or arrange for a car dealership representative to share with the class information about car lease agreements. Guide students to compare the costs of leasing to purchasing a car as well as other factors that might influence a person’s decision to lease or own a vehicle. | In-class or out-of-class assignment<br>Internet or car dealership representative

### TAKING IT HOME

**TAKING IT HOME**<br>Compare phones and calling plans for your family. Gather information about at least two local phone plans provided by different companies. Find out what information you need to provide to the phone companies when you apply for the phone plans.

Use the DECIDE decision-making process learned in Module 1 to establish criteria for selecting a phone plan based on your current needs and financial situation. Compare the terms of each plan, and consider the advantages and disadvantages of each plan. Decide which option best meets your criteria.

### FURTHER STUDY

**FURTHER STUDY**<br>Bring in car ads that include leasing options and financing information. Calculate out the cost of vehicles, comparing leasing versus purchasing. Discuss the financial issues (good and bad) related to leasing a vehicle. Who would be the best candidate to lease a car? When might it make sense to lease a car versus purchasing a car?
Credit Costs

TODAY YOU WILL . . .
EXAMINE THE COSTS OF CREDIT.

☐ Display this slide as you kick off the lesson.
Which is better?

Choose an Option

? Computer: Make payments for 24 or 36 months?
? Stereo System: Pay 13.5 or 18 percent interest?
? Car: Lower price at higher interest rate?
? TV: Delay payments for 90 days?
? Truck: $1,500 cash back or no cash back?

Student Guide, page 12

☐ Read about Jesse’s laptop deal to introduce the activity (Student Guide, page 12).

☐ Distribute the Pick an Option task to each student or team of students. Have students read through each purchasing opportunity and, based on a quick analysis or gut hunch, select what they think would be the better borrowing option. At this time, they will only do a quick response to fill in the left column. (Note: Students will fill in the remaining columns later in the lesson. Although there are right and wrong answers—students will perform the math during Learning Task 4 to compare the monthly and total costs for each scenario.)

☐ Once they are finished, relate to students that many salespeople hope that consumers will make purchasing and financing decisions based on whether something seems like a deal, rather than doing the math to see if it really is or not.

EXTENSION: Assign students to bring in examples of local sales flyers, brochures, or ads designed to get consumers to buy a big ticket item without thinking about the real cost of the item once it is financed. Examine the advertising and sales techniques used. Discuss the psychology of advertising.
Transition into the lesson by telling the students that they will learn about the costs of using credit. Preview the Learning Outcomes in the Student Learning Plan. By the end of this lesson, the students should be able to compare costs and terms to select credit for a specific situation.
Provide an explanation of credit terminology. Explain that borrowing money comes with a price. A lender is willing to extend credit because it can be profitable if the amount is repaid with interest. When deciding if using credit is worthwhile, the borrower needs to take into consideration all costs of credit and how repayment will impact the ability to meet other spending obligations.

Note: The slide example was calculated using the amortization formula, which is presented later in this lesson.
Provide an example of how borrowing adds costs to a purchase by sharing the experience of Jesse’s brother. Ask for answers to the questions as a transition into calculating interest.

[Answer is shown on the next slide: Jesse’s brother will pay more than $150 for the tire. Using the simple interest formula, he will pay a total of $151.25 because he will repay the amount borrowed ($150) plus the interest charged (.10) for 30 days (1/12 year).

\[
\text{Interest} = \text{Principal} \times \text{Rate} \times \text{Time in years}
\]

\[
= 150 \times 0.10 \times \frac{1}{12} = 1.25
\]

Point out that interest is the main cost involved with borrowing. Explain that payments made to repay borrowed amounts will vary depending on how the interest is calculated. This will vary due to the rate of interest, the amount borrowed, and how often interest is calculated.
Review how interest is calculated using the simple interest formula and example.

Guide students to practice calculating interest as they complete Activity 2.3: Simply Tell the Total.
Point out that lenders actually use a more complex formula to calculate the average monthly payments due on loans. Explain that as the principal is paid off on a loan, interest is recalculated on the adjusted lower principal balance. Because this would be cumbersome for someone to recalculate every time a payment is due, the Amortization Calculation Formula is used to figure out the average monthly payment over the term of the loan. Knowing an average amount to be paid each month is helpful when planning a monthly spending plan or budget.
Illustrate how much of a monthly payment is applied to interest and to the principal each month using the amortization calculations. (Student Guide, page 11).

Prompt the students to calculate the monthly amounts owed for changes in Activity 2.4: What is the Average Payment? using the amortization calculation formula (either by hand or using a financial calculator).

Note: A calculation worksheet is available online for instructors to reference for both Activity 2.4 the Pick and Option Task.
Introduce additional credit terminology.
Review types of credit options and how payments may differ with related costs.
Point out that each month a credit card balance is unpaid, interest is calculated on the new amount owed which includes the original amount that was borrowed and also the amount of interest that was applied to any previously unpaid balances (aka compounding).

Use the figures in the chart to illustrate how interest compounds on unpaid balances.
Illustrate ways that credit can get expensive when someone encounters a high interest rate or chooses to make minimal payments.

Facilitate a discussion about the long-term impact of compound interest when minimum payments are made.
Provide another example to illustrate ways that credit can get expensive when someone encounters a high interest rate or chooses to make minimal payments.

Direct the students to the Pick an Option task that was used earlier in the lesson. Arrange for the students to work alone, in pairs, or small groups to calculate the monthly payment amount, the total amount that will be paid and the total finance charges. (If time is pressing, assign one scenario to each person, team, or group.)

Note: If the students’ math skills are strong, reinforce their abilities by letting them complete calculations on their own. Encourage the students to create an amortization schedule/chart using an electronic spreadsheet.

Note: A calculation worksheet is available online for instructors to reference for both Activity 2.4 the Pick and Option Task.

If time allows, have students share their answers, including which deal they would accept and why. Sometimes, the better money deal is not the right answer for an individual, especially if the monthly payment is high and goes beyond one’s income-debt ratio.
Assign the students to complete Challenge 2-A: DECIDE The Best Deal for You. This challenge will also apply to Lesson 2-4: Risks and Responsibilities.
OVERVIEW

Even if you don’t need to borrow money today, you’ll soon be flooded with tempting offers for car loans, credit cards, cash-advance loans, cellphone service, and more. Boosting your borrowing IQ now will prepare you to make smarter decisions whenever you decide to take the credit plunge.

This lesson will help you calculate the costs of borrowing options.

LEARNING OUTCOMES

In this lesson you will calculate the costs of borrowing options. Along the way you will:

- Give examples of how credit is used.
- Identify typical costs and terms of credit.
- Calculate the cost of using credit.

Use what you learn to consider borrowing options for a specific situation.

LEARNING TASKS

These tasks match pages 9-15 in Student Guide 2.

| 1. | Jesse did the math on a laptop deal and realized the bargain wasn’t a bargain at all. See if you can spot a bargain from several offers. |
| 2. | Listen to a presentation about the costs of using credit. Complete Activity 2.3: Simply Tell the Total to calculate the total costs of credit purchases. |
| 3. | Calculate average monthly payments to repay a loan. Complete Activity 2.4: What is the Average Payment. |
| 4. | Mariah did a good job of comparing credit card options available to her. How good were your instincts? Time to find out if you were right. Figure out the monthly payment, total interest paid, and total cost for several purchases by completing the Pick an Option task. Figure out which is the better deal. Then, choose which deal you would take, and explain why you made that choice. |
| 5. | Pick a situation where you or your family uses credit. Complete Challenge 2-A: DECIDE The Best Deal For You. |

TAKING IT HOME

Compare phones and calling plans for your family. Gather information about at least two local phone plans provided by different companies. Find out what information you need to provide to the phone companies when you apply for the phone plans.

Use the DECIDE decision-making process learned in Module 1 to establish criteria for selecting a phone plan based on your current needs and financial situation. Compare the terms of each plan, and consider the advantages and disadvantages of each plan. Decide which option best meets your criteria.

FURTHER STUDY

Bring in car ads that include leasing options and financing information. Calculate out the cost of vehicles, comparing leasing versus purchasing.

Discuss the financial issues (good and bad) related to leasing a vehicle. Who would be the best candidate to lease a car? When might it make sense to lease a car versus purchasing a car?
Jesse did the math on a laptop deal and realized the bargain wasn’t a bargain at all. See if you can spot a bargain in the offers below. For each purchase, check the option that you think would be the best credit deal.

<table>
<thead>
<tr>
<th>*Best Deal</th>
<th>Option</th>
<th>Purchase Price</th>
<th>Monthly Payments</th>
<th>Total Interest</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase a Computer</td>
<td>Store Financing: 24 monthly payments at 11.9% APR</td>
<td>$1,400</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Credit Card: 36 monthly payments at 15.9% APR</td>
<td>$1,400</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Purchase a Stereo System</td>
<td>Store Financing: 12 monthly payments at 13.5% APR</td>
<td>$800</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Credit Card: 24 monthly payments at 18% APR</td>
<td>$800</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Purchase a Car</td>
<td>Car A: 7% APR for 60 months</td>
<td>$20,000</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Car B: 3.9% APR for 30 months</td>
<td>$23,000</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Purchase a Big Screen TV</td>
<td>Store Financing: no payments for three months, but monthly interest charges start immediately at 10% APR; then six months of payments.</td>
<td>$1,900</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Credit Union: 11% APR for 12 months</td>
<td>$1,900</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Purchase a Truck</td>
<td>Option A: $1,500 rebate; 2.9% APR for 48 months</td>
<td>$25,000</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Option B: $0 rebate; 0.9% APR for 36 months</td>
<td>$25,000</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>
NAME: KEY  [Calculation Notes are available in a separate Excel worksheet file.]

Directions:  [Note to teacher: Students will only check the left column when they complete this activity early in the lesson (Learning Task 1). Later in the lesson they will fill in the remaining columns to calculate the total costs (Learning Task 4).]

Jesse did the math on a laptop deal and realized the bargain wasn’t a bargain at all. See if you can spot a bargain in the offers below. For each purchase, check the option that you think would be the best credit deal.

*Student choices will vary depending on whether decisions were based on the monthly payment amount or the total cost for each item. This is an opportunity to point out that people might decide that a lower rather than larger monthly payment fits better with a spending plan when the total cost difference is nominal.*

<table>
<thead>
<tr>
<th>Option</th>
<th>Purchase Price</th>
<th>Monthly Payments</th>
<th>Total Interest</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purchase a Computer</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[[ ] Store Financing: 24 monthly payments at 11.9% APR</td>
<td>$1,400</td>
<td>$65.84</td>
<td>$180.10</td>
<td>$1,580.10</td>
</tr>
<tr>
<td>[[ ] Credit Card: 36 monthly payments at 15.9% APR</td>
<td>$1,400</td>
<td>$49.15</td>
<td>$369.43</td>
<td>$1,769.43</td>
</tr>
<tr>
<td><strong>Purchase a Stereo System</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[[ ] Store Financing: 12 monthly payments at 13.5% APR</td>
<td>$800</td>
<td>$71.64</td>
<td>$59.70</td>
<td>$859.70</td>
</tr>
<tr>
<td>[[ ] Credit Card: 24 monthly payments at 18% APR</td>
<td>$800</td>
<td>$39.94</td>
<td>$158.54</td>
<td>$958.54</td>
</tr>
<tr>
<td><strong>Purchase a Car</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[[ ] Car A: 7% APR for 60 months</td>
<td>$20,000</td>
<td>$396.02</td>
<td>$3,761.44</td>
<td>$23,761.44</td>
</tr>
<tr>
<td>[[ ] Car B: 3.9% APR for 30 months</td>
<td>$23,000</td>
<td>$805.89</td>
<td>$1,176.79</td>
<td>$24,176.79</td>
</tr>
<tr>
<td><strong>Purchase a Big Screen TV</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[[ ] Store Financing: no payments for three months, but monthly interest charges start immediately at 10% APR; then six months of payments.</td>
<td>$1,900</td>
<td>$334.12</td>
<td>$47.50</td>
<td>$1,900.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$47.50</td>
<td>$57.19</td>
<td>$104.69</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[[ ] Credit Union: 11% APR for 12 months</td>
<td>$1,900</td>
<td>$167.93</td>
<td>$115.10</td>
<td>$2,015.10</td>
</tr>
<tr>
<td><strong>Purchase a Truck</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[[ ] Option A: $1,500 rebate; 2.9% APR for 48 months</td>
<td>$25,000</td>
<td>$552.25</td>
<td>$1,508.19</td>
<td>$25,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-$1,500 cash back</td>
<td>$1,508.19</td>
<td>$25,008.19</td>
</tr>
<tr>
<td>[[ ] Option B: $0 rebate; 0.9% APR for 36 months</td>
<td>$25,000</td>
<td>$704.12</td>
<td>$348.39</td>
<td>$25,348.39</td>
</tr>
</tbody>
</table>
Activity 2.3: Simply Tell the Total

NAME:  

DATE:  

Directions:

Use the simple interest formula to calculate the interest and the total amount to be repaid in one lump sum for the purchases below.

**Simple Interest Rate Formula**

\[ I = P \times R \times T \]

- \( I \) = interest
- \( P \) = principal
- \( R \) = interest rate (decimal number)
- \( T \) = time (number of years)

<table>
<thead>
<tr>
<th>Description</th>
<th>Principal (P)</th>
<th>Interest Rate (R)</th>
<th>Time in Years (T)</th>
<th>Interest (I)</th>
<th>Total Amount to be Repaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash loan</td>
<td>$100</td>
<td>40.0%</td>
<td>1/2 year</td>
<td>$20 (100 x .4 x .5)</td>
<td>$120 ($100 + $20)</td>
</tr>
<tr>
<td>Big-screen TV</td>
<td>$700</td>
<td>7.0%</td>
<td>2 years</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>College loan</td>
<td>$12,000</td>
<td>3.5%</td>
<td>15 years</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>
Activity 2.3: Simply Tell the Total

NAME: KEY

DATE:

Directions:

Use the simple interest formula to calculate the interest and the total amount to be repaid in one lump sum for the purchases below.

**Simple Interest Rate Formula**

\[ I = P \times R \times T \]

where

- \( I \) = interest
- \( P \) = principal
- \( R \) = interest rate (decimal number)
- \( T \) = time (number of years)

<table>
<thead>
<tr>
<th>Description</th>
<th>Principal (P)</th>
<th>Interest Rate (R)</th>
<th>Time in Years (T)</th>
<th>Interest (I)</th>
<th>Total Amount to be Repaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash loan</td>
<td>$100</td>
<td>40.0%</td>
<td>1/2 year</td>
<td>$20</td>
<td>$120 ($100 + $20)</td>
</tr>
<tr>
<td>Big-screen TV</td>
<td>$700</td>
<td>7.0%</td>
<td>2 years</td>
<td>$98</td>
<td>$798 ($700 + $98)</td>
</tr>
<tr>
<td>College loan</td>
<td>$12,000</td>
<td>3.5%</td>
<td>15 years</td>
<td>$6,300</td>
<td>$18,300 ($12,000 + $6,300)</td>
</tr>
</tbody>
</table>
Activity 2.4: What is the Average Payment?

NAME:                                      DATE:

Directions:

Figure out the average monthly payments for two purchases made with loans using the amortization calculation formula.

Alternatives: Do your own amortization calculations using spreadsheet software* or generate an amortization payment chart by using an online financial calculator.

Amortization Calculation Formula

\[ A = P \left(1 + r\right)^n \frac{r(1 + r)^n}{(1 + r)^n - 1} \]

- \( A \) = payment amount
- \( P \) (aka \( pv \)) = principal (the present value of the loan)
- \( r \) = interest rate, per period (decimal number)
- \( n \) = total number of payments over which the loan will be repaid

<table>
<thead>
<tr>
<th>Description</th>
<th>Present Value of Loan (pv)</th>
<th>Annual Interest Rate (APR)</th>
<th>Interest Rate Per Period (r)</th>
<th>Number of Payments (n)</th>
<th>Payment Amount (A)</th>
<th>Total Amount to be Repaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Loan</td>
<td>$100</td>
<td>40.0%</td>
<td>40% / 12 = $3.33%</td>
<td>6</td>
<td>$18.66</td>
<td>$18.66 x 6 = $111.96</td>
</tr>
<tr>
<td>Big-Screen TV</td>
<td>$700</td>
<td>7.0%</td>
<td>7% / 12 = $1</td>
<td>24</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>College Loan</td>
<td>$12,000</td>
<td>3.5%</td>
<td>3.5% / 12 = $1</td>
<td>180</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

*Microsoft Excel PMT Function: \( \text{=PMT}(r,n,-pv) \)

PMT Function example for cash loan: \( \text{=PMT}(0.4/12,6,-100) \)
Activity 2.4: What is the Average Payment?

NAME: KEY

Directions:

Figure out the average monthly payments for two purchases made with loans using the amortization calculation formula.

Alternatives: Do your own amortization calculations using spreadsheet software* or generate an amortization payment chart by using an online financial calculator**.

Amortization Calculation Formula

\[ A = P \frac{r(1 + r)^n}{(1 + r)^n - 1} \]

- \( A \) = payment amount
- \( P \) (aka \( pv \)) = principal (the present value of the loan)
- \( r \) = interest rate, per period (decimal number)
- \( n \) = total number of payments over which the loan will be repaid

<table>
<thead>
<tr>
<th>Description</th>
<th>Present Value of Loan (( pv ))</th>
<th>Annual Interest Rate (APR)</th>
<th>Interest Rate Per Period (( r ))</th>
<th>Number of Payments (( n ))</th>
<th>Payment Amount (( A ))</th>
<th>Total Amount to be Repaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Loan</td>
<td>$100</td>
<td>40.0%</td>
<td>( 40% / 12 = 3.33% )</td>
<td>6</td>
<td>$18.66</td>
<td>$18.66 x 6 = $111.99</td>
</tr>
<tr>
<td>Big-Screen TV</td>
<td>$700</td>
<td>7.0%</td>
<td>( 7% / 12 = 0.58% )</td>
<td>24</td>
<td>$31.34</td>
<td>$31.34 x 24 = $752.18</td>
</tr>
<tr>
<td>College Loan</td>
<td>$12,000</td>
<td>3.5%</td>
<td>( 3.5% / 12 = 0.29% )</td>
<td>180</td>
<td>$85.79</td>
<td>$85.79 x 180 = $15,441.46</td>
</tr>
</tbody>
</table>

*Microsoft Excel PMT Function: =PMT(\( r \),\( n \),-\( pv \))

PMT Function example for cash loan: =PMT(.4/12,6,-100)

**Search online for an “amortization calculator” to calculate the average monthly payment and generate an amortization table. Encourage the students to study the full amortization chart to examine how the interest paid per month decreases as the principal is paid.
Directions:

Jesse has his eye on buying a used truck. Of the three options below, which do you think is the better deal if he borrows $5,000 cash to be repaid in one lump sum?

- [ ] 7 percent APR payable in two years
- [ ] 5.5 percent APR payable in three years
- [ ] 4.75 percent APR payable in four years
Directions:

Jesse has his eye on buying a used truck. Of the three options below, which do you think is the better deal if he borrows $5,000 cash to be repaid in one lump sum?

Simple interest formula (Principal \times \text{Rate} \times \text{Time in Years})

- **7 percent APR payable in two years**
  
  \( $5,000 \times .07 \times 2 = $700 \) (interest)
  
  $5,000 principal + $700 interest = $5,700 total to be repaid in two years

- **5.5 percent APR payable in three years**
  
  \( $5,000 \times .055 \times 3 = $825 \) (interest)
  
  $5,000 principal + $825 interest = $5,825 total to be repaid in three years

- **4.75 percent APR payable in four years**
  
  \( $5,000 \times .0475 \times 4 = $950 \) (interest)
  
  $5,000 principal + $950 interest = $5,950 total to be repaid in four years
Challenge 2-A: Decide the Best Deal for You

NAME: 

DATE: 

Directions:

As you work through the lessons and activities in NEFE’s High School Financial Planning Program, you will complete challenge activities that can be compiled into a personal financial planning portfolio. For this challenge task, use what you have learned in Lesson 1-3: Decisions and Lesson 2-2: Credit Costs to make a thoughtful decision about using credit.

Directions:

☐ 1. Apply what you have learned about credit costs and criterion-based decision making as you complete this challenge. Preview the criteria listed in the Scoring Guide to plan your work.

☐ 2. Pick a situation where you or your family currently use or expect to use credit in the near future. For example, this might be a phone plan, car loan, school loan, or apartment rental. Gather information from two to three different businesses that provide credit for the situation. Use the DECIDE process to select the best option for your (or your family’s) criteria.

☐ 3. Use the chart below or create a separate document to summarize your decision-making process. Review the six DECIDE action steps to guide your work. Your actions should take into consideration your current circumstances and values.

☐ 3. Self-assess your work using the Scoring Guide. Optional: Ask a classmate or family member to peer assess your work using the Scoring Guide.

<table>
<thead>
<tr>
<th>DECIDE Steps</th>
<th>My Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Define your goal.</td>
</tr>
<tr>
<td>2</td>
<td>Establish your criteria.</td>
</tr>
<tr>
<td>3</td>
<td>Choose three good options.</td>
</tr>
<tr>
<td>4</td>
<td>Identify the pros and cons of the options. Calculate costs for each option.</td>
</tr>
<tr>
<td>5</td>
<td>Decide what’s best.</td>
</tr>
<tr>
<td>6</td>
<td>Evaluate the results.</td>
</tr>
</tbody>
</table>
**Challenge 2-A: Decide the Best Deal for You**

**NAME:**

**DATE:**

<table>
<thead>
<tr>
<th>Required Criteria</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Content</strong></td>
<td></td>
</tr>
<tr>
<td>1. In one sentence you state what you want to achieve as a result of the decision-making process.</td>
<td>acceptable</td>
</tr>
<tr>
<td>2. Outcome involves a decision about using credit.</td>
<td>acceptable</td>
</tr>
<tr>
<td>3. You justify how the decision and outcome relates to your current circumstances and values.</td>
<td>acceptable</td>
</tr>
<tr>
<td>4. Summary lists at least three criteria for an acceptable outcome, including the features you absolutely must have as well as features you would like to have or will not accept such as a specific payment limit.</td>
<td>acceptable</td>
</tr>
</tbody>
</table>

**Option Status Rating Key:** “A” = Acceptable / “NA” = Not Acceptable

<table>
<thead>
<tr>
<th>Option</th>
<th>Option A</th>
<th>Option B</th>
<th>Option C</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Summary includes details about three possible options, including specific borrowing terms and costs.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. You devise a way to illustrate how well each option matches your criteria.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. You point out the solution that you have chosen.</td>
<td>acceptable</td>
<td>not acceptable</td>
<td></td>
</tr>
<tr>
<td>8. You justify why the chosen option was selected.</td>
<td>acceptable</td>
<td>not acceptable</td>
<td></td>
</tr>
<tr>
<td>9. You choice is logical based on the known circumstances, stated criteria, and potential to achieve the desired outcome.</td>
<td>acceptable</td>
<td>not acceptable</td>
<td></td>
</tr>
<tr>
<td>10. You summarize what you do and don’t like about your choice and justify any modifications that were made in the purpose, criteria, or solutions.</td>
<td>acceptable</td>
<td>not acceptable</td>
<td></td>
</tr>
</tbody>
</table>

**General**

<table>
<thead>
<tr>
<th></th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>11. Content is clearly stated with distinct detail.</td>
<td>acceptable</td>
</tr>
<tr>
<td>12. Documentation is neat and easy to read.</td>
<td>acceptable</td>
</tr>
<tr>
<td>13. Calculations are accurate.</td>
<td>acceptable</td>
</tr>
<tr>
<td>14. Information about each option is accurate or can be verified.</td>
<td>acceptable</td>
</tr>
</tbody>
</table>

**Feedback:**

**Score:** _______ / _______
OVERVIEW

Would you want to loan money to someone who can’t or won’t pay you back? And you probably wouldn’t want to loan money to someone who took forever to pay you back.

Lenders, too, don’t want to loan money to people who aren’t responsible about paying it back. If they don’t know anything about someone who is asking to use credit, the lenders have methods to predict if the money will be repaid and paid on time.

This lesson will give you an inside peek at what lenders look for when someone applies for a loan or a credit card. This will help you take steps now to make a positive impression later on a potential lender.

LEARNING OUTCOMES

In this lesson students will learn about ways to establish a good credit rating. Along the way they will:

- Outline the credit application process.
- Describe what lenders consider when deciding whether to approve or deny a credit request.
- Explain how creditors investigate someone’s borrowing habits.

Students will use what they learn today to impress lenders with good borrowing habits.

PREPARATION

- Order a Module 2 Student Guide for each student. (The Guide is also available online.)
- Preview the lesson PowerPoint presentation, learning tasks, and Module 2 Student Guide, particularly pages 23-31.
- Print or download the Student Learning Plan for this lesson so each student has a copy.
- Prepare Borrow cards for Learning Task 1.
- Prepare Credit Application Packs (one per team) for Learning Task 3.

WHAT YOU WILL NEED

- Module 2 Student Guide (pages 23-31)
- PowerPoint Presentation 2-3
- Student Learning Plan 2-3
- Copies of the Borrow cards (Task 1)
- Task: Can I Borrow ... ?
- Task: Credit Application
- Task: Applications for Review
- Activity 2.8: Put Your Best Foot Forward
- Challenge 2-B: Building Creditworthiness

NOTES

Approximate time: 45 minutes (minimum) – 90 minutes (with extension activities)

Annual Credit Reports, www.annualcreditreport.com
## LEARNING TASKS

<table>
<thead>
<tr>
<th>1. Participate in the Can I Borrow...? task.</th>
<th><strong>PROCEDURE</strong></th>
<th><strong>TIME ESTIMATE: 5-10 minutes</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>[Slide 2] Copy enough Can I Borrow cards so each student has one situation card.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Give each student a Borrow card. Direct students to mingle with classmates to find someone who would be willing to let the cardholder borrow the item listed on the card. Stress that the items will not actually be exchanged, but a deal should be negotiated as though the item might be exchanged. Give the students two to three minutes to negotiate with classmates.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilitate a wrap-up discussion by asking the students:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ What were you trying to borrow, and were you successful in negotiating a deal to borrow the item? Why or why not?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ What were the conditions (if any) for you to follow so you could borrow or use the item?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ When you were asked to loan the item, what influenced your decision to let the person borrow the item?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXTENSION: Introduce the concept of supply and demand and how this can impact the price of goods or services (called “commodity”).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Find out what information you will need when applying for a credit card or applying for a loan. Practice filling out a credit application.</th>
<th><strong>PROCEDURE</strong></th>
<th><strong>TIME: 10 minutes</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>[Slide 3] Transition into the lesson by telling the students that they will learn about strategies to start on the path to establishing a good credit rating. Preview the Learning Outcomes in the Student Learning Plan. By the end of this lesson, the students should be able to outline actions they will take to make a good impression on creditors.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ask the students what information they would want to know if they were to loan money to someone.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Slide 4] Read about Mariah and her mother at the community bank, pages 23-24. Distribute the sample credit application so students can practice filling out a sample application form as though they were Mariah’s mother while you click through Slide 4 to explain what information is typically collected when requesting a cash loan, applying for a credit card, or signing up for electrical service.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## MATERIALS

<table>
<thead>
<tr>
<th>Module 2 Student Guide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Learning Plan 2-3</td>
</tr>
<tr>
<td>SLIDE 2 – Can I Borrow?</td>
</tr>
<tr>
<td>ACTIVITY</td>
</tr>
<tr>
<td>Task: Can I Borrow</td>
</tr>
</tbody>
</table>

| STUDENT GUIDE Pages 23-24 |
| SLIDES 3 – Preview 4 – Applying for Credit |
| ACTIVITY |
| Task: Credit Application |
### LEARNING TASKS

Below are talking points to include in your presentation:

- **Current address and phone number**: Be consistent and use your legal name that you also use in a formal signature.

- **Date of birth and Social Security number**: This information helps to differentiate you from other people by the same name. Your Social Security number is unique to only you and should only be shared for official business as required.

- **Current employer**: You need to show evidence that you will be taking in money to repay what you borrowed. Some lenders might also ask how long you have been employed and type of job. For large loan amounts, don’t be surprised if the lender contacts your employer to confirm that you have provided truthful information.

- **Monthly income**: In this case, provide the gross income. The employer will want assurance that you make enough money to cover your monthly expenses and repay the amount you owe.

- **Bank name and account number**: You may have heard someone say that you need to have money to borrow money. Showing that you have a savings fund safely stored in a bank will inform the lender that you have some cash on hand to repay the loan if needed; you are not relying completely on future earnings you haven’t yet received.

- **Monthly rent or mortgage payment**: This is typically the largest monthly expense for a household. Obviously the lender wants to ensure that your monthly paycheck will cover your housing costs with something left over for the loan payment each month.

- **Debrief** by asking students to compare the responses for Ms. Anderson’s situation to their own if they were to answer now as a teenager or a few years from now as a young adult.

### PROCEDURE

**TIME**: 15-20 minutes

- [Slide 5] Arrange students into teams of three or four students. Distribute one Application Review packet to each team to review. Assign a recorder to take notes for the group, and identify the reporter who will report results out to the whole class. Read the scenario to the whole class to get the students started on the following actions:
  1. Establish criteria for approving (or denying) a credit application.
  2. Decide whether to approve or deny each of the applications.

- Point out that the 5 C’s of Credit information (Student Guide pages 24-25) can be used to establish the evaluation criteria. When the teams report their decisions, expect that they include this terminology when sharing the rational for their decisions.
### LEARNING TASKS

Evaluate how you look to a lender by completing **Activity 2.8: Put Your Best Foot Forward**.

- Give the students a time limit to complete the task so they are ready to report their decisions. Arrange for each team reporter to report the team decisions and rationale for approving or denying each application request. When teams differ in their evaluation results, facilitate a discussion to bring out the logic behind the decisions, and identify when additional information might be needed to make a more informed decision.

- If time allows, assign students to complete **Activity 2.8: Put Your Best Foot Forward** either in class or out of class.

### TEACHING NOTES

**PROCEDURE**

- **TIME: 10 minutes**

  - Arrange for two students to take notes either on a flipchart or at the board as students shout out types of rating systems they know of that are used to rate or rank either individual progress or comparisons with other individuals or groups. Give a few examples such as student report cards, college football team rankings, or number of weeks an author’s book appears on the Best Seller’s List. After one or two minutes, debrief by asking students to give their opinions on why these lists and rating systems exist.

  - [Slide 6] Use this discussion to transition into the topic of credit reporting. Explain that credit-reporting companies collect data about how individuals use credit, and this information is used to rate borrowers. Point out what information is collected starting with the first time that a student applies for a credit card or loan as an adult. (Student Guide, pages 26-27)

  - Explain that the information in a credit report is used to calculate a credit score on a particular date. The lender uses the score to predict if someone will repay what was borrowed and repay on time. In essence, the lender is using the information available to speculate if someone is a high, medium, or low risk. A low score might be the reason an application is denied or allowed a low credit limit to start out. Someone with a high score will most likely have lower interest rates or higher credit limits than someone with an average or low score. [Note: To help illustrate this concept, compare a credit score to another type of rating scale used by industries to help customers predict the type of experience they will encounter. Examples that might be familiar to your students include: restaurant or hotel star ratings, ski hill slope rating, or golf course rating.]
## LEARNING TASKS

- **[Slide 7]** Explain that three U.S. credit-reporting agencies keep track of how individuals use credit. This information, in turn, is shared with businesses that request information about a person’s credit history. A business should have a credible reason to investigate someone’s creditworthiness. For example, an auto dealer will request a credit report when someone applies for an auto loan to buy a car. Or a landlord might look at a credit report before deciding whether or not to rent out an apartment to someone. (Student Guide pages 27, 30)

Tell the students that they can view what is in their credit reports. Each of the credit-reporting agencies provides a free report once a year. Encourage the students to check their reports at least once a year when they are adults to ensure the information is accurate and confirm that no one else is using their identity to access credit.

## TEACHING NOTES

- Ask the students to give examples of how they might soon use credit. This is a time to explain that they cannot enter into a credit contract on their own until they are adults. (This is covered in more detail in Lesson 2-4.) Someone under age 21 who applies for a credit card must show proof of income or have a cosigner to be considered to receive a credit card.

- **[Slide 8]** Ask the students what they think someone without a credit report can do to make a good impression the first few times they apply to use credit. Show the slide to provide actions a teen might use to be positioned for the first credit request experience. As a minor, a teen won’t have any credit history to report. If they have no history, a lender might request that someone with an acceptable history cosign on the loan. Use this to transition to the next slide and challenge assignment.

- **[Slide 9]** Guide students to plan out actions they can take prior to turning 18 and as a young adult so they make a good impression on a creditor. Tell them to complete **Challenge 2-B: Building Creditworthiness** to devise a plan to start now to establish good credit habits.

## PROCEDURE

- In-class or out-of-class assignment

5. **Complete Challenge 2-B: Building Creditworthiness** to plan out strategies to make a good impression on a lender.

## MATERIALS

- **STUDENT GUIDE**
  - Page 31
- **SLIDES**
  - 8 - Starting Out
  - 9 - Challenge
- **ACTIVITY**
  - Challenge 2-B: Building Creditworthiness
## LEARNING TASKS

<table>
<thead>
<tr>
<th>TAKING IT HOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Find out what the late payment penalties are for borrowing options.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TAKING IT HOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encourage an adult family member to check his or her credit report.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROCEDURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tell the students to find out what the late payment penalties are for three different borrowing options that they and/or family currently has or might consider.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROCEDURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encourage the students to use what they have learned to motivate an adult family member to review his or her credit report.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MATERIALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out-of-class assignment</td>
</tr>
</tbody>
</table>

### TAKING IT HOME

Find out what the late payment penalties are for three different borrowing options you and/or your family currently have or might consider. For each option, calculate the last day of the month that a payment can be received without being charged a late fee.

### TAKING IT HOME

Encourage a family member to go to [www.annualcreditreport.com](http://www.annualcreditreport.com) to get a free copy of his or her credit report from one of the credit-reporting agencies.

Keep in mind that this information is private, so don’t expect to read the report. Instead, use what you have learned to share reasons that a person should check the report at least once a year.
Credit Rating

TODAY YOU WILL . . . START DOWN THE PATH TO BUILD A REPUTATION AS A RESPONSIBLE BORROWER.

- Display this slide as you kick off the lesson.
Copy enough **Can I Borrow** cards so each student has one situation card.

Give each student a Borrow card. Direct students to mingle with classmates to find someone who would be willing to let the cardholder borrow the item listed on the card. Stress that the items will not actually be exchanged, but a deal should be negotiated as though the item might be exchanged. Give the students two to three minutes to negotiate with classmates.

Facilitate a wrap-up discussion by asking the students:
- *What were you trying to borrow, and were you successful in negotiating a deal to borrow the item? Why or why not?*
- *What were the conditions (if any) for you to follow so you could borrow or use the item?*
- *When you were asked to loan the item, what influenced your decision to let the person borrow the item?*

**EXTENSION:** Introduce the concept of supply and demand and how this can impact the price of goods or services (called “commodity”).
Transition into the lesson by telling the students that they will learn about strategies to start on the path to establishing a good credit rating. Preview the Learning Outcomes in the Student Learning Plan.

By the end of this lesson, the students should be able to outline actions they will take to make a good impression on creditors.
Ask the students what information they would want to know if they were to loan money to someone.

Read about Mariah and her mother at the community bank, pages 23-24. Distribute the sample credit application so students can practice filling out a sample application form as though they were Mariah’s mother while you click through Slide 4 to explain what information is typically collected when requesting a cash loan, applying for a credit card, or signing up for electrical service.

- **Current address and phone number**: Be consistent and use your legal name that you also use in a formal signature.

- **Date of birth and Social Security number**: This information helps to differentiate you from other people by the same name. Your Social Security number is unique to only you and should only be shared for official business as required.

- **Current employer**: You need to show evidence that you will be taking in money to repay what you borrowed. Some lenders might also ask how long you have been employed and type of job. For large loan amounts, don’t be surprised if the lender contacts your employer to confirm that you have provided truthful information.

- **Monthly income**: In this case, provide the gross income. The employer will want assurance that you make enough money to cover your monthly expenses and repay the amount you owe.

- **Bank name and account number**: People have said that you need to have money to borrow money, and showing that you have a savings fund safely stored in a bank will inform the lender that you have some cash on hand to repay the loan if needed; you are not relying completely on future earnings you haven’t yet received.

- **Monthly rent or mortgage payment**: This is typically the largest monthly expense for a household. Obviously the lender wants to ensure that your monthly paycheck will cover your housing costs with something left over for the loan payment each month.

Debrief by asking students to compare the responses for Ms. Anderson’s situation to their own if they were to answer now as a teenager or a few years from now as a young adult.
Arrange students into teams of three or four students. Distribute one Applications for Review packet to each team to review. Assign a recorder to take notes for the group, and identify the reporter who will report results out to the whole class.

Read the scenario to the whole class to get the students started on the following actions:

1. Establish criteria for approving (or denying) a credit application.
2. Decide whether to approve or deny each of the applications.

Student Guide, pages 24-25

Point out that the 5 C’s of Credit information (Student Guide pages 24-25) can be used to establish the evaluation criteria. When the teams report their decisions, expect that they include this terminology when sharing the rational for their decisions.

Give the students a time limit to complete the task so they are ready to report their decisions. Arrange for each team reporter to report the team decisions and rationale for approving or denying each application request. When teams differ in their evaluation results, facilitate a discussion to bring out the logic behind the decisions, and identify when additional information might be needed to make a more informed decision.

If time allows, assign students to complete Activity 2.8: Put Your Best Foot Forward either in class or out of class.
Arrange for two students to take notes either on a flipchart or at the board as students shout out types of rating systems they know of that are used to rate or rank either individual progress or comparisons with other individuals or groups. Give a few examples such as student report cards, college football team rankings, or number of weeks an author’s book appears on the Best Seller’s List. After one or two minutes, debrief by asking students to give their opinions on why these lists and rating systems exist.

Student Guide, pages 26-27

Use this discussion to transition into the topic of credit reporting. Explain that credit-reporting companies collect data about how individuals use credit, and this information is used to rate borrowers. Point out what information is collected starting with the first time that a student applies for a credit card or loan as an adult.

Explain that the information in a credit report is used to calculate a credit score on a particular date. The lender uses the score to predict if someone will repay what was borrowed and repay on time. In essence, the lender is using the information available to speculate if someone is a high, medium, or low risk. A low score might be the reason an application is denied or allowed a low credit limit to start out. Someone with a high score will most likely have lower interest rates or higher credit limits than someone with an average or low score. [Note: To help illustrate this concept, compare a credit score to another type of rating scale used by industries to help customers predict the type of experience they will encounter. Examples that might be familiar to your students include: restaurant or hotel star ratings, ski hill slope rating, or golf course rating.]
Explain that three U.S. credit-reporting agencies keep track of how individuals use credit. This information, in turn, is shared with businesses that request information about a person’s credit history. A business should have a credible reason to investigate someone’s creditworthiness. For example, an auto dealer will request a credit report when someone applies for an auto loan to buy a car. Or a landlord might look at a credit report before deciding whether or not to rent out an apartment to someone.

Tell the students that they can view what is in their credit reports. Each of the credit-reporting agencies provides a free report once a year. Encourage the students to check their reports at least once a year when they are adults to ensure the information is accurate and confirm that no one else is using their identity to access credit.
Ask the students to give examples of how they might soon use credit. This is a time to explain that they cannot enter into a credit contract on their own until they are adults. (This is covered in more detail in Lesson 2-4.) Someone under age 21 who applies for a credit card must show proof of income or have a cosigner to be considered to receive a credit card.

Ask the students what they think someone without a credit report can do to make a good impression the first few times they apply to use credit. Show the slide to provide actions a teen might use to be positioned for the first credit request experience. As a minor, a teen won’t have any credit history to report. If they have no history, a lender might request that someone with an acceptable history cosign on the loan. Use this to transition to the next slide and challenge assignment.
Guide students to plan out actions they can take prior to turning 18 and as a young adult so they make a good impression on a creditor. Tell them to complete Challenge 2-B: Building Creditworthiness to devise a plan to start now to establish good credit habits.
MODULE 02

BORROWING: Use—Don’t Abuse

WWW.HSFPP.ORG
OVERVIEW

Would you want to loan money to someone who can’t or won’t pay you back? And you probably wouldn’t want to loan money to someone who took forever to pay you back.

Lenders, too, don’t want to loan money to people who aren’t responsible about paying it back. If they don’t know anything about someone who is asking to use credit, the lenders have methods to predict if the money will be repaid and paid on time.

This lesson will give you an inside peek at what lenders look for when someone applies for a loan or a credit card. This will help you take steps now to make a positive impression later on a potential lender.

LEARNING TASKS

These tasks match pages 23-31 in Student Guide 2.

__ 1. Participate in the Can I Borrow...? task.

__ 2. Find out what information you will need when applying for a credit card or applying for a loan. Practice filling out a credit application.

__ 3. Take a look at sample credit applications. Who would you give the loan to? Establish your criteria to approve (or deny) a request. Then decide whether to approve or deny each request. Evaluate how you look to a lender by completing Activity 2.8: Put Your Best Foot Forward.

__ 4. Did you know that even as an adult, you will have a report card? Find out how credit reports are used to evaluate someone’s borrowing habits. What can you do now as a teenager to start out with good marks as a young adult?

__ 5. Complete Challenge 2-B: Building Creditworthiness to plan out strategies to make a good impression on a lender.

LEARNING OUTCOMES

In this lesson you will learn about ways to establish a good credit rating. Along the way you will:

☑ Outline the credit application process.

☑ Describe what lenders consider when deciding whether to approve or deny a credit request.

☑ Explain how creditors investigate someone’s borrowing habits.

Use what you learn today to impress lenders with good borrowing habits.

TAKING IT HOME

Find out what the late payment penalties are for three different borrowing options you and/or your family currently have or might consider. For each option, calculate the last day of the month that a payment can be received without being charged a late fee.

TAKING IT HOME

Encourage a family member to go to www.annualcreditreport.com to get a free copy of his or her credit report from one of the credit-reporting agencies.

Keep in mind that this information is private, so don’t expect to read the report. Instead, use what you have learned to share reasons that a person should check the report at least once a year.
Task: Can I Borrow ... ?

Directions for the Instructor

Copy enough Borrow cards so each student has one situation card. Add or substitute cards with other situations that are relevant to your students.

Give each student a Borrow card. Direct students to mingle with classmates to find someone who would be willing to let the cardholder borrow the item listed on the card. Stress that the items will not actually be exchanged, but a deal should be negotiated as through the item might be exchanged. Give the students two to three minutes to negotiate with classmates.

Facilitate a wrap-up discuss by asking the students:

1. What were you trying to borrow? Were you able to negotiate a deal to borrow the item? Why or why not?
2. What were the conditions (if any) for you to follow so you could borrow or use the item?
3. When you were asked to loan the item, what influenced your decision to let the person borrow the item?

<table>
<thead>
<tr>
<th>Borrow bike to make a quick trip off campus during lunch</th>
<th>Borrow a car to get to a job interview tomorrow after school</th>
<th>$5 for lunch</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30 to shop at the mall</td>
<td>Cellphone for a few minutes to call a parent (your phone is dead)</td>
<td>Cellphone during lunch to check on a friend who is home today due to illness</td>
</tr>
<tr>
<td>iPad</td>
<td>Shoes for gym class today because you forgot your shoes at home</td>
<td>$20 to put gas in your car. (You get paid in 8 days.)</td>
</tr>
<tr>
<td>Class notebook so you can copy the notes from day you were absent from English class</td>
<td>A watch or bracelet that someone is now wearing</td>
<td>Sweatshirt or jacket to wear all day because you are cold.</td>
</tr>
<tr>
<td><strong>CREDIT APPLICATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------</td>
<td>------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>Name</strong></td>
<td><strong>Social Security Number</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>000-00-0000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Birth Date</strong></td>
<td><strong>Home Phone</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Work Phone</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Address</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Own or Rent?</strong></td>
<td><strong>Length of Time at Address</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Mortgage or Rent Paid To</strong></td>
<td><strong>Monthly Payment</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Employment Income</strong></td>
<td><strong>Start Date</strong></td>
<td></td>
</tr>
<tr>
<td><strong>$</strong></td>
<td><strong>Employer Phone Number</strong></td>
<td></td>
</tr>
<tr>
<td><strong>per month</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Name and Address of Employer</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td><strong>Source of Other Income</strong></td>
<td></td>
</tr>
<tr>
<td><strong>$</strong></td>
<td><strong>per month</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Bank Name</strong></td>
<td><strong>Account Number</strong></td>
<td></td>
</tr>
<tr>
<td><strong>City and State</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Bank Name</strong></td>
<td><strong>Account Number</strong></td>
<td></td>
</tr>
<tr>
<td><strong>City and State</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Reference/Other Creditor</strong></td>
<td><strong>Account Number</strong></td>
<td></td>
</tr>
<tr>
<td><strong>City and State</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Reference/Other Creditor</strong></td>
<td><strong>Account Number</strong></td>
<td></td>
</tr>
<tr>
<td><strong>City and State</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Requested Loan Amount</strong></td>
<td><strong>Purpose of Loan</strong></td>
<td></td>
</tr>
<tr>
<td><strong>$</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Date</strong></td>
<td><strong>Signature</strong></td>
<td></td>
</tr>
</tbody>
</table>
# APPLICATION

<table>
<thead>
<tr>
<th>Name</th>
<th>Social Security Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael Carver</td>
<td>111-22-3333</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Birth Date</th>
<th>Home Phone</th>
<th>Work Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/88</td>
<td>888-111-5555</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>555 This Street, Boulder City, NV 89005</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Own or Rent?</th>
<th>Length of Time at Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>Six years</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mortgage or Rent Paid To</th>
<th>Monthly Payment</th>
<th>Outstanding Debt Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Landlord</td>
<td>$695</td>
<td>about $7000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employment Income</th>
<th>Start Date</th>
<th>Employer Phone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2000 per month</td>
<td>January 11, 2006</td>
<td>888-111-2222</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name and Address of Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Candy Shoppe</td>
</tr>
<tr>
<td>Main Street, Boulder City, NV 89005</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Income</th>
<th>Source of Other Income</th>
<th>Total Asset Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 per month</td>
<td></td>
<td>$4,309 (savings &amp; car)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reference/Other Creditors</th>
<th>Account Number</th>
<th>City and State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boulder City Community Bank</td>
<td>555-56-031</td>
<td>Boulder City, NV</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Requested Loan Amount</th>
<th>Purpose of Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,000</td>
<td>Purchase car</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Michael Carver</td>
</tr>
</tbody>
</table>

Decision:  
☐ Approve  ☐ Deny

**REASONS:**

1. 

2. 

3. 

### APPLICATION

<table>
<thead>
<tr>
<th>Name</th>
<th>Social Security Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerome Charles</td>
<td>987-65-4321</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Birth Date</th>
<th>Home Phone</th>
<th>Work Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/15/96</td>
<td>888-111-2222</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>123 Apartment Place #1342, New York NY 10001</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Own or Rent?</th>
<th>Length of Time at Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Live with parents</td>
<td>3 years</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mortgage or Rent Paid To</th>
<th>Monthly Payment</th>
<th>Outstanding Debt Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$193</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employment Income</th>
<th>Start Date</th>
<th>Employer Phone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>$400 per month</td>
<td>888-111-2222</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name and Address of Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self employed (make jewelry and keychains)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Income</th>
<th>Source of Other Income</th>
<th>Total Asset Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$120 per month</td>
<td>Dog walking</td>
<td>$0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reference/Other Creditors</th>
<th>Account Number</th>
<th>City and State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Credit Union</td>
<td>1000101</td>
<td>NYC NY</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Requested Loan Amount</th>
<th>Purpose of Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,499</td>
<td>Laptop</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jerome Charles</td>
</tr>
</tbody>
</table>

### Decision:
- [ ] Approve
- [ ] Deny

### REASONS:
1. ____________________________________________________________
2. ____________________________________________________________
3. ____________________________________________________________
### APPLICATION

<table>
<thead>
<tr>
<th>Name</th>
<th>Social Security Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victoria Mejia</td>
<td>987-12-3456</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Birth Date</th>
<th>Home Phone</th>
<th>Work Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/12/92</td>
<td>888-999-9999</td>
<td>888-555-1111</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Apartment Road #514A, Dallas TX 75000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Own or Rent?</th>
<th>Length of Time at Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>1 year, 6 months</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mortgage or Rent Paid To</th>
<th>Monthly Payment</th>
<th>Outstanding Debt Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms. Buck</td>
<td>$390</td>
<td>$2,615</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employment Income</th>
<th>Start Date</th>
<th>Employer Phone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>$39,520 per year</td>
<td>August 1, 2010</td>
<td>888-555-1111</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name and Address of Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cable Company, 100 Main Street, Dallas TX 75000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Income</th>
<th>Source of Other Income</th>
<th>Total Asset Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 per month</td>
<td></td>
<td>$3,381 (savings &amp; car)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reference/Other Creditors</th>
<th>Account Number</th>
<th>City and State</th>
</tr>
</thead>
<tbody>
<tr>
<td>My Credit Union</td>
<td>2234567</td>
<td>Dallas TX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Requested Loan Amount</th>
<th>Purpose of Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,750</td>
<td>Professional toolkit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Victoria Mejia</td>
</tr>
</tbody>
</table>

**Decision:**
- [ ] Approve
- [ ] Deny

**REASONS:**
1. _________________________________________________
2. _________________________________________________
3. _________________________________________________
APPLICATION

Name: Carmen Vasquez
Social Security Number: 000-11-2222

Birth Date: 11/24/96
Home Phone: 888-555-1111

Current Address:
12 Money Street, Penny Town, CO 8111

Own or Rent?: Live with parents
Length of Time at Address: Entire Life

Mortgage or Rent Paid To: $ 0
Monthly Payment: $ 0
Outstanding Debt Amount:

Employment Income:

Name and Address of Employer:
Susie’s Gift Shop          123 Main Street, Penny Town, CO 8111

Other Income:

Other Creditors:
Colorado State Bank
123-45-678
Penny Town, CO 8111

Requested Loan Amount: $5,000
Purpose of Loan: Purchase car

Date: Signature
Carmen Vasquez

Decision: □ Approve  □ Deny

REASONS:
1. _______________________________________________________
2. _______________________________________________________
3. _______________________________________________________
How creditworthy do YOU look to a lender?

Directions:

- Identify specific evidence to show how you meet any or all of the 5 C’s of credit.
- If you don’t have evidence now for any of categories, list what you will do in the near future so you can make a positive impression on a lender in that category.

<table>
<thead>
<tr>
<th>C’s of Credit</th>
<th>My Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td></td>
</tr>
<tr>
<td>Capacity</td>
<td></td>
</tr>
<tr>
<td>Character</td>
<td></td>
</tr>
<tr>
<td>Collateral</td>
<td></td>
</tr>
<tr>
<td>Conditions</td>
<td></td>
</tr>
</tbody>
</table>
Challenge 2-B: Building Creditworthiness

NAME: 

DATE: 

Write a letter to a potential lender or deliver a verbal sales pitch to defend your creditworthiness. Base the presentation on your current and near future circumstances. This will include an assessment of your situation plus an explanation of ways you can build on favorable behaviors and modify unfavorable behaviors.

As you work through the lessons and activities in NEFE’s High School Financial Planning Program, compile your completed challenge activities into a personal financial planning portfolio. For this challenge task, use what you have learned in Lesson 2-3: Credit Rating to lay the foundation for a good credit score. Summarize what you can do to make a good impression for potential lenders.

Directions

☐ 1. Assess your current borrowing reputation (character) and your situation regarding capital and capacity. Summarize your level of readiness to take on credit when you are legally able to enter into contractual agreements. How do you predict lenders will rate you? Are you a high, medium, or low risk?

☐ 2. Think about the actions and habits you can apply to make a favorable impression to a creditor in spite of your young age and limited credit history. Use what you have learned about credit reporting and scoring to determine what you can do now as a teenager and as you transition into adulthood to establish credit history and a favorable credit rating. Preview the criteria listed in the Scoring Guide to plan your work.

☐ 3. Self-assess your work using the Scoring Guide. Optional: Ask a classmate or family member to peer assess your work using the Scoring Guide.
### Challenge 2-B: Building Creditworthiness

**NAME:**

**DATE:**

<table>
<thead>
<tr>
<th>Required Criteria</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Content</strong></td>
<td></td>
</tr>
<tr>
<td>1. You summarize your level of readiness to take on credit by rating yourself as <em>high</em>, <em>medium</em>, or <em>low</em> risk.</td>
<td>acceptable not acceptable</td>
</tr>
<tr>
<td>2. You provide evidence of how your borrowing reputation (character) is acceptable or unacceptable.</td>
<td>acceptable not acceptable</td>
</tr>
<tr>
<td>3. You state specific behaviors that you currently display or will apply to impress a potential lender that you are a responsible borrower.</td>
<td>acceptable not acceptable</td>
</tr>
<tr>
<td>4. <em>Without</em> providing specific personal financial data (such as account details or dollar amounts), you summarize how your capital condition is acceptable or unacceptable.</td>
<td>acceptable not acceptable</td>
</tr>
<tr>
<td>5. You state specific strategies that you currently or will apply to give a potential lender confidence that you can manage your funds and repay on time.</td>
<td>acceptable not acceptable</td>
</tr>
<tr>
<td>6. <em>Without</em> providing specific personal financial data (such as income dollar amounts), you provide evidence of how your capacity situation is acceptable or unacceptable.</td>
<td>acceptable not acceptable</td>
</tr>
<tr>
<td>7. You state specific strategies that you can apply to give a potential lender confidence that you can repay whatever amount is borrowed.</td>
<td>acceptable not acceptable</td>
</tr>
<tr>
<td>8. You state at least two ways that a favorable credit rating can potentially benefit you financially.</td>
<td>acceptable not acceptable</td>
</tr>
<tr>
<td>9. You state at least two strategies to overcome barriers that may impact your ability to build a credit history and favorable credit rating.</td>
<td>acceptable not acceptable</td>
</tr>
<tr>
<td><strong>General</strong></td>
<td></td>
</tr>
<tr>
<td>10. Action strategies are appropriate according to the standard borrowing guidelines reviewed during learning sessions.</td>
<td>acceptable not acceptable</td>
</tr>
<tr>
<td>11. Content is clearly presented in a logical manner according to your instructor’s standards.</td>
<td>acceptable not acceptable</td>
</tr>
</tbody>
</table>

**Feedback:**

**Score:** _______ / _______
OVERVIEW

You probably don’t think of a loan or credit-card application as a contract, but it is. By signing on the dotted line, you’re entering into an agreement between you and the lender about what each of you must or must not do. You have responsibilities you have to meet to uphold your end of the contract, but so does your lender.

Your responsibilities include not taking on more debt than you can afford. Find out how much is too much and learn more about the legal rights and responsibilities of borrowing.

LEARNING OUTCOMES

In this lesson students will learn about the rights and responsibilities of borrowers and lenders. Along the way they will:

- Explain their legal rights and responsibilities when agreeing to a contract.
- Recite guidelines for borrowing limits.
- State where to get help with credit issues.

Students will use what they learn to write a code of conduct for borrowing.

PREPARATION

- Order a Module 2 Student Guide for each student. (The Guide is also available online.)
- Preview the lesson PowerPoint presentation, learning tasks, and Module 2 Student Guide, particularly pages 16-34 and 39.
- Print or download the Student Learning Plan for this lesson so each student has a copy.
- Collect samples of credit card agreements from mailings, or download samples from www.consumerfinance.gov/credit-cards/agreements.

WHAT YOU WILL NEED

- Module 2 Student Guide
- PowerPoint Presentation 2-4
- Student Learning Plan 2-4
- Activity 2.6: Good and Bad Uses of Credit
- Activity 2.7: Know the Limit
- Activity 2.9: Rights and Responsibilities of Borrowing
- Challenge 2-C: Credit Code of Behavior
- Sample credit card agreements (Task 3)

NOTES:

Approximate time: 45 minutes (minimum) – 90 minutes (with extension activities)

Resources:

## LEARNING TASKS

1. Explain why you think credit is good or bad.

### PROCEDURE

- **ESTIMATED TIME:** 5 minutes
- [Slide 2] Kick off this lesson by asking the students if they think credit is good or bad based on what they have learned in previous lessons. Gather responses either by a show of hands or by facilitating a brief debate with students offering arguments for each side. At this time, allow students to share without you making judgments. Select comments and opinions to reference throughout this lesson.

- Click on Slide 2 to display the statement “HOW we use credit is what’s good or bad.” (Student Guide, page 4) Transition into the next slide to preview the lesson by telling the students that they will learn about their responsibilities as borrowers.

- [Slide 3] Preview the Learning Outcomes in the Student Learning Plan. As a wrap up to this lesson, the students will outline their personal code of conduct for borrowing.

2. Check your knowledge of ways you can improve your credit score.

### PROCEDURE

- **TIME:** 5 minutes
- Point out to the students that even if they decide to limit or avoid borrowing, having some type of credit history can be to their advantage down the road. Having a credit report that shows a history of using credit responsibly can provide benefits such as lower insurance premium rates, less hassle when applying for utilities they need or to rent an apartment, or lower interest rates if ever deciding to apply for a credit card, auto loan, or home loan.

- Review how a credit report is similar to a letter of recommendation, a way for lenders to investigate someone’s borrowing history and reputation. Remind the students that lenders use information from credit reports to determine credit scores which are used to predict if a person will pay bills on time. (Note: This is covered in more detail in Lesson 2-3.)

- Click through slides 4-6 to review the types of actions that help increase a credit score.

- Ask students if they were surprised by any of the answers. Point out that lenders want to do business with responsible borrowers, but lenders are also in the business to make money. They are seeking customers who will not only repay but also will potentially pay the additional interest. This is one reason for individuals to know what they are getting into when borrowing.
LEARNING TASKS | TEACHING NOTES | MATERIALS
---|---|---
3. Find out what you are getting into when signing a credit contract. Complete Activity 2.9: Rights and Responsibilities to examine the fine print on a credit agreement. | PROCEDURE | TIME: 15 minutes

[Slide 7 – title only] Point out to students that they are entering into a contract when they borrow money, take out a loan, use a credit card, or get a cellphone. A contract is a legal arrangement that two parties agree to uphold. Although repaying what is owed is the right thing to do, borrowers have additional responsibilities to carry out when entering into a contract. [Click to show each bullet point.] Point out the potential consequences if someone doesn’t follow through on their contractual responsibilities. (Student Guide, page 17)

[Slide 8] Clarify what makes a contract official so students know what they are getting into when, as adults, they sign a cellphone agreement, use a credit card, sign as a co-signer for a cash loan, or click “I agree” on the payment page when shopping online. (page 32)

Ask students to brainstorm examples of contracts (both for borrowing money and for other services) they might be exposed to as they become young adults. Examples: apartment lease, car or motorcycle loan, mortgage, utilities (water, electricity, cellphone, Internet, cable or satellite TV), or rentals (auto, post office box, safe deposit box, textbook, sporting equipment, hotel, bike share, parking space). Stress the importance of comprehending and accepting responsibility for the terms of the agreement before they indicate acceptance. Acceptance might be a traditional signature in ink, an electronic signature, or a click on a type of online “I Accept” tab. Point out that using the services can also be considered acceptance. For example, if a call is made that exceeds the monthly minute limit, the caller is agreeing to pay extra for those additional minutes.

[Slide 9] Summarize the common responsibilities a borrower has when signing and carrying out a credit agreement (page 32).

[Slide 10] Introduce the students to the Consumer Financial Protection Bureau (CFPB) and the Federal Trade Commission (FTC) as resources for consumer information and guidance should they ever need assistance when dealing with credit problems. Consider visiting each website to tour the consumer resources.

Arrange for students (individually or in pairs) to have access to two credit agreements so they can research and compare contract terms as they complete Activity 2.9: Rights and Responsibilities. If time allows, ask several students which card they would pick and why.

STUDENT GUIDE Pages 17, 31-33
SLIDES
7 - Follow Through or Risk ...
8 - The Contract
9 - Ignorance is No Excuse
10 – On Your Side
ACTIVITIES
Sample credit card agreements
Activity 2.9: Rights and Responsibilities
Internet sites: www.ftc.gov/bcp
www.consumerfinance.gov
LEARNING TASKS | TEACHING NOTES | MATERIALS
---|---|---
Note: Collect applications with terms from local banks, credit union, mail solicitations, or download sample credit card agreements from CFPB’s website, [www.consumerfinance.gov/credit-cards/agreements/](http://www.consumerfinance.gov/credit-cards/agreements/).

To help define and explain each term, go to the prototype credit card agreement on “Know Before You Owe” page on the CFPB website, [www.consumerfinance.gov/credit-cards/knowbeforeyouowe/](http://www.consumerfinance.gov/credit-cards/knowbeforeyouowe/).

| PROCEDURE | TIME: 10 minutes |
---|---|
Facilitate a discussion about how using credit is borrowing from the lender AND from your future self. The borrower needs to plan ahead to build the repayment into a spending plan, and this is money that won’t be available for something else. (Option: Read Stealing From Your Future Self, page 19.) Use the story of Mariah’s mom as an example of what happens when borrowing gets out of control and a person takes on more debt than s/he can afford (page 16). Taking on too much debt increases the amount paid in fees and interest which is money that isn’t available for other needs and wants, now and in the future.

[Slide 11] Explain how the 20-10 Rule is a guideline to help borrowers evaluate how much debt is too much. Stress that each borrower needs to take responsibility to determine what is affordable based on his or her actual situation, not hoped for situation.

[Slides 12-13] Allow time for students to practice (in pairs or individually) calculating debt limits by completing Activity 2.7: Know the Limit. Click on the slide to check their calculations.

Additional Note: The 20-10 Rule doesn’t include debt related to a mortgage. Most lenders use some variation of the “28/36 Rule.” This means that PITI (principle, interest, taxes and insurance) cannot exceed 28 percent of gross monthly income and PITI, plus all outstanding consumer debt (such as car loans and credit card payments), cannot exceed 36 percent of gross income. For example, a two-income couple earning $60,000 annually, or $5,000 a month, would qualify for a mortgage with a $1,400 monthly PITI payment ($5,000 x .28) if they had no other debt and a $1,200 monthly payment if they had $600 of monthly consumer debt payments ($5,000 x .36 = $1,800 - $600 = $1,200).

Source: NEFE’s Smart About Money website, [www.smartaboutmoney.org/LifeEventsFinancialDecisions/PlanningAMajorPurchase/BuyingaHome/FirstHomePurchase/tabid/429/Default.aspx](http://www.smartaboutmoney.org/LifeEventsFinancialDecisions/PlanningAMajorPurchase/BuyingaHome/FirstHomePurchase/tabid/429/Default.aspx)
# Lesson 2-4: Rights and Responsibilities

## LEARNING TASKS

### 5. Use the SHREWD guidelines to complete Activity 2.6: Good and Bad Uses of Credit.

**PROCEDURE**

- [Slide 14, page 21] Demonstrate how to apply the SHREWD questions for a possible borrowing situation. Use one of the situations on page 4 for an example or create a different scenario that the students can relate to.

- Have the students apply the questions as they complete Activity 2.6: Good and Bad Uses of Credit. This is a good time to point out that the Stop Drop and Think Before You Buy Test (Appendix, page 40) can also be applied when making spending decisions that will involve borrowing.

**TIME:** 10 minutes

**MATERIALS**

- STUDENT GUIDE Pages 4, 21
- SLIDE 14 – Be a SHREWD Borrower
- ACTIVITY Activity 2.6: Good and Bad Uses of Credit

### 6. Complete Challenge 2-C: Credit Code of Behavior to write your personal code for borrowing.

**PROCEDURE**

- [Slide 15] Wrap up this lesson by asking for student volunteers to role play an impromptu interview with a news reporter. Ask students what they would say if they were stopped on the street and asked the following question that will be aired on tonight’s news segment about credit: *What two tips can you offer about using credit?*

- [Slide 16] Guide students to consider what they have learned about using credit to create their own type of code of conduct when dealing with credit and debt. Give them a deadline to complete Challenge 2-C: Credit Code of Behavior to establish guidelines they intend to follow when borrowing items or money.

**TIME:** In-class or out-of-class assignment

**MATERIALS**

- STUDENT GUIDE Page 39
- SLIDES
  - 15 – What Would You Say?
  - 16 - Challenge
- ACTIVITY
  - Challenge 2-C: Credit Code of Behavior

## TAKING IT HOME

Write a contract with your parents or guardians to clarify the rights and responsibilities for both you and your parents.

**PROCEDURE**

- Students may need assistance thinking of possible contracts to write. Be prepared to share some examples, perhaps from your childhood, from parenting experiences, or even from work.

- Students may opt to do this assignment to create entrepreneurship opportunities, such as contracting to do a neighbor’s landscaping or housecleaning. Creating such contracts will help legitimize their efforts while creating some firm guidelines for their clients’ rights and the students’ responsibilities as the contractor.

**RESOURCES:** Free contract templates can be found online. Encourage students who download templates to edit contracts to reflect their specific situation, terms and conditions. They will also need to take out anything that does not apply to the situation.

**TIME:** In-class or out-of-class assignment

**MATERIALS**

- STUDENT GUIDE Pages 34-35
TEACHER LESSON PLAN
Lesson 2-4: Rights and Responsibilities

<table>
<thead>
<tr>
<th>LEARNING TASKS</th>
<th>TEACHING NOTES</th>
<th>MATERIALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXTENSION</td>
<td>PROCEDURE</td>
<td>In-class or out-of-class assignment</td>
</tr>
<tr>
<td>Research and create a consumer protection marketing campaign.</td>
<td>Establish a timeline for students to complete their marketing campaign, either individually or in groups. Arrange for the students to present their marketing concepts to the entire class.</td>
<td></td>
</tr>
</tbody>
</table>

 принял IT HOME

Think about a right or responsibility that you take on at home or think you are ready to take on. Write a contract with your parents/guardians to clarify the rights and responsibilities for both you and your parents. Clarify the terms of the arrangement for work you do or privileges you have such as using the family car, following a curfew, or having a cellphone.

EXTENSION

Research and create a consumer protection marketing campaign for your school or community. Select either “identity fraud” or “rights and responsibilities of borrowers” for your campaign.

1. Collect information and compelling facts from at least four different reliable sources.
2. Compile information to create 10 of the most useful “tips” for your campaign.
3. Check that your tips are accurate, concise, easy-to-understand, and free from writing errors.
4. Determine the most appropriate media for your campaign: posters, brochures, school/cable access television show, website, or Internet video.
5. Create your campaign materials.
6. Deploy your campaign!
7. If time allows, measure the impact of your campaign with a survey before and after your campaign.
Borrowing Rights

TODAY YOU WILL . . .
EXPLORE THE RIGHTS AND RESPONSIBILITIES
OF BORROWERS AND LENDERS.

☐ Display this slide as you kick off the lesson.
Student Guide, page 4

- Ask the students if they think credit is good or bad based on what they have learned in previous lessons. Gather responses either by a show of hands or by facilitating a brief debate with students offering arguments for each side. At this time, allow students to share without you making judgments. Select comments and opinions to reference throughout the rest of this lesson.

- Click on the slide to display the statement “How we use credit is what’s good or bad.” Transition into the next slide to preview the lesson by telling the students that they will learn about their responsibilities as borrowers.
Preview the lesson by telling the students that they will learn about their responsibilities as borrowers. Preview the Learning Outcomes in the Student Learning Plan. As a wrap up to this lesson, the students will outline their personal code of conduct for borrowing.
Point out to the students that even if they decide to limit or avoid borrowing, having some type of credit history can be to their advantage down the road. Having a credit report that shows a history of using credit responsibly can provide benefits such as lower insurance premium rates, less hassle when applying for utilities they need or to rent an apartment, or lower interest rates if ever deciding to apply for a credit card, auto loan, or home loan.

Review how a credit report is similar to a letter of recommendation, a way for lenders to investigate someone’s borrowing history and reputation. Remind the students that lenders use information from credit reports to determine credit scores which are used to predict if a person will pay bills on time. (Note: This is covered in more detail in Lesson 2-3.)

Click through slides 4-6 to review the types of actions that help increase a credit score.

---

Win Loans and Influence Interest
Do the following actions help your credit score?

1. Pay your bills on time.
   Yes, paying on time is the single best way to get a good credit score.

2. Open several accounts in a short period of time.
   No, opening several accounts in a short time frame hurts your score, especially when starting out. This makes you look desperate to borrow.

3. Own a credit card you don’t ever use.
   No, creditors want to see how well you use credit. If there’s no activity for a long time, the account may be considered inactive.
Win Loans and Influence Interest
Do the following actions help your credit score?

4. Frequently move credit card balances to new cards with better interest rates.
   **No**, card hopping decreases the average age of your credit accounts, and lenders like to see long-term relationships.

5. Get a credit card when you already have a car and student loan.
   **Yes**, adding a credit card when you only have loans can help because lenders prefer to see a mix of credit types.

☐ Click through slides 4-6 to review the types of actions that help a credit score.
Win Loans and Influence Interest
Do the following actions help your credit score?

6. Close a credit card that you made a lot of late payments on.
   No, closing an account with negative items won’t help. The account will still remain on your credit report for up to 10 years, whether inactive or closed.

7. Use a debit card responsibly.
   No, debit card usage doesn’t show up in a credit report because these types of transactions are withdrawals from your own bank account rather than borrowing from someone else.

☐ Click through slides 4-6 to review the types of actions that help a credit score.

☐ Ask students if they were surprised by any of the answers. Point out that lenders want to do business with responsible borrowers, but lenders are also in the business to make money. They are seeking customers who will not only repay but also have the potential to pay interest. This is one reason for individuals to know what they are getting into when borrowing.
Follow Through or Risk . . .

- Embarrassment if card is declined at the checkout
- Having property repossessed
- State of perpetual debt which can increase personal stress
- Paying higher interest rates and/or late fees
- Negative details for others to see on your credit report
- Having your wages garnished
- Contact with a collection agency
- Unplanned expenses for legal action to enforce the contract

Student Guide, page 17

- [Display slide heading] Point out to students that they are entering into a contract when they borrow money, take out a loan, use a credit card, or get a cellphone. A contract is a legal arrangement that two parties agree to uphold. Although repaying what is owed is the right thing to do, borrowers have additional responsibilities to carry out when entering into a contract.

- [Click to show slide bullet points] Point out the potential consequences if someone doesn’t follow through on their contractual responsibilities.
Clarify what makes a contract official so students know what they are getting into when, as adults, they sign a cellphone agreement, use a credit card, sign as a co-signer for a cash loan, or click “I agree” on the payment page when shopping online.

Ask students to brainstorm other examples of contracts (both for credit and for other services) they might be exposed to as they become young adults. Examples: apartment lease, car or motorcycle loan, mortgage, utilities (water, electricity, cellphone, Internet, cable or satellite TV), or rentals (auto, post office box, safe deposit box, textbook, sporting equipment, hotel, bike share, parking space).

Stress the importance of comprehending and accepting responsibility for the terms of the agreement before they indicate acceptance. Acceptance might be a traditional signature in ink, an electronic signature, or a click on a type of online “I Accept” tab. Point out that using the services can also be considered a type of acceptance. For example, if a call is made that exceeds the monthly minute limit, the caller is agreeing to pay extra for those additional minutes.
Summarize the common responsibilities a borrower has when signing and carrying out a credit agreement.
Introduce the students to the Consumer Financial Protection Bureau (CFPB) and the Federal Trade Commission (FTC) as resources for consumer information and guidance should they ever need assistance when dealing with credit problems. Consider visiting each website to tour the consumer resources.

Arrange for students (individually or in pairs) to have access to two credit agreements so they can research and compare contract terms as they complete Activity 2.9: Rights and Responsibilities. If time allows, ask several students which card they would pick and why.

Note: Collect applications with terms from local banks, credit union, mail solicitations, or download sample credit card agreements from CFPB’s website, www.consumerfinance.gov/credit-cards/agreements/.

To help define and explain each term, go to the prototype credit card agreement on “Know Before You Owe” page on the CFPB website, www.consumerfinance.gov/credit-cards/knowbeforeyouowe/.
Facilitate a discussion about how using credit is borrowing from the lender and from the borrower’s future self. The borrower needs to plan ahead to build the repayment into a spending plan, and this is money that won’t be available for something else. (Option: Read Stealing From Your Future Self, page 19.) Use the story of Mariah’s mom as an example of what happens when borrowing gets out of control and a person takes on more debt than s/he can afford (page 16). Taking on too much debt increases the amount paid in fees and interest which is money that isn’t available for other needs and wants, now and in the future.

Explain how the 20-10 Rule is a guideline to help borrowers evaluate how much debt is too much. Stress that each borrower needs to take responsibility to determine what is affordable based on his or her actual situation, not hoped-for situation. Use the next slide and Activity 2.7 for practice.
Allow time for students to practice (in pairs or individually) calculating debt limits by completing Activity 2.7: Know the Limit. Click on the slide to check their calculations.

Additional Note: The 20-10 Rule doesn’t include debt related to a mortgage. Most lenders use some variation of the “28/36 Rule.” This means that PITI (principle, interest, taxes and insurance) cannot exceed 28 percent of gross monthly income and PITI, plus all outstanding consumer debt (such as car loans and credit card payments), cannot exceed 36 percent of gross income. For example, a two-income couple earning $60,000 annually, or $5,000 a month, would qualify for a mortgage with a $1,400 monthly PITI payment ($5,000 x .28) if they had no other debt and a $1,200 monthly payment if they had $600 of monthly consumer debt payments ($5,000 x .36 = $1,800 - $600 = $1,200).

Source: NEFE’s Smart About Money website, www.smartaboutmoney.org/LifeEventsFinancialDecisions/PlanningaMajorPurchase/BuyingaHome/FirstHomePurchase/tabid/429/Default.aspx
When to Say When: The 20-10 Rule

<table>
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<tr>
<th>Borrower</th>
<th>Annual Net Income</th>
<th>Maximum Total Debt (20% Net Income)</th>
<th>Maximum Monthly Payments (10% Monthly Net Income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mariah’s sister</td>
<td>$6,500</td>
<td>$1,300</td>
<td>$54.17</td>
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<tr>
<td>Jesse’s brother</td>
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<tr>
<td>Jesse’s sister</td>
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<td>You</td>
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</tbody>
</table>

Student Guide, page 20

- Click to the slide so students can check their answers to Activity 2.7.
Student Guide, pages 4, 21, and 40.

- Click through this slide to demonstrate how to apply the SHREWD questions for a possible borrowing situation. Use one of the situations on page 4 for an example or create a different scenario that the students can relate to.

- Have the students apply the questions as they complete Activity 2.6: Good and Bad Uses of Credit. This is a good time to point out that the Stop Drop and Think Before You Buy Test (Appendix, page 40) can also be applied when making spending decisions that will involve borrowing.
Wrap up this lesson by asking for student volunteers to role play an impromptu interview with a news reporter. Ask students what they would say if they were stopped on the street and asked the following question that will be aired on tonight’s news segment about credit: *What two tips can you offer about using credit?*
Guide students to consider what they have learned about using credit to create their own type of code of conduct when dealing with credit and debt. Give them a deadline to complete Challenge 2-C: Credit Code of Behavior to establish guidelines they intend to follow when borrowing items or money.
OVERVIEW

You probably don’t think of a loan or credit-card application as a contract, but it is. By signing on the dotted line, you’re entering into an agreement between you and the lender about what each of you must or must not do. You have responsibilities you have to meet to uphold your end of the contract, but so does your lender.

Your responsibilities include not taking on more debt than you can afford. Find out how much is too much and learn more about the legal rights and responsibilities of borrowing.

LEARNING OUTCOMES

In this lesson you will learn about the rights and responsibilities of borrowers and lenders. Along the way you will:

- Explain your legal rights and responsibilities when agreeing to a contract.
- Recite guidelines for borrowing limits.
- State where to get help with credit issues.
- Use what you learn to write a code of conduct for borrowing.

LEARNING TASKS

These tasks match pages 16-34, 39 in Student Guide 2.

- 1. Explain why you think credit is good or bad.
- 2. Check your knowledge of ways you can improve your credit score.
- 3. Find out what you are getting into when signing a credit contract. Complete Activity 2.9: Rights and Responsibilities as you examine the fine print on a credit agreement.
- 4. When is debt too much? Find out as you complete Activity 2.7: Know the Limit.
- 5. Use the SHREWD guidelines to complete Activity 2.6: Good and Bad Uses of Credit.
- 6. Complete Challenge 2-C: Credit Code of Behavior to write your personal code for borrowing.

TAKING IT HOME

Think about a right or responsibility that you take on at home or think you are ready to take on. Write a contract with your parents/guardians to clarify the rights and responsibilities for both you and your parents. Clarify the terms of the arrangement for work you do or privileges you have such as using the family car, following a curfew, or having a cellphone.

EXTENSION

Research and create a consumer protection marketing campaign for your school or community. Select either “identity fraud” or “rights and responsibilities of borrowers” for your campaign.

1. Collect information and compelling facts from at least four different reliable sources.
2. Compile information to create 10 of the most useful “tips” for the campaign.
3. Check that your tips are accurate, concise, easy-to-understand, and free from writing errors.
4. Determine the most appropriate media for your campaign: posters, brochures, school/cable access television show, website, or Internet video.
5. Create your campaign materials.
6. Deploy your campaign!
7. If time allows, measure the impact of your campaign with a survey before and after your campaign.

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High School Financial Planning Program
www.hsfpp.org
Lesson 2-4: Rights and Responsibilities
June 2014
Activity 2.6 Good and Bad Uses of Credit

NAME:  

DATE:  

Directions:
For each situation below, mark (X) if you think this is a good reason to borrow money. If you did not mark an X, explain why you think the situation is not a good reason to use credit.

1. Taking out a $5,000 student loan for college tuition.

2. Charging dinner and movie tickets during a night out with your friends.

3. Buying a laptop that’s on sale using the store’s financing program.

4. Getting a loan to pay your credit-card bills.

5. Charging repairs to get your car running again.

Activity 2.6 Good and Bad Uses of Credit

Directions:

For each situation below, mark (X) if you think this is a good reason to borrow money. If you did not mark an X, explain why you think the situation is not a good reason to use credit.

1. Taking out a $5,000 student loan for college tuition.  
   As a last resort, this is one example of using credit to invest in a person’s future only if all other options have been considered, such as working to save money for tuition, selecting from college options that are in a person’s (or family’s) affordable price range, seeking scholarship and/or grant funding, or reducing other expenses to have more available for tuition. The borrower should do the homework to compare student loan options and terms to ensure s/he will be able to meet the repayment responsibilities later.  
   [See more information about college payment options, Module 3: Earning Power.]

2. Charging dinner and movie tickets during a night out with your friends.  
   Charging for something without long-lasting benefits is generally not a good reason to use credit. In this case, the bill for the charges will arrive long after the event has ended. However, some people do charge these types of purchases so they don’t have to carry around large amounts of money or because of the convenience of ordering tickets online. In this case, a good practice is to pay the full credit card bill balance when the monthly bill arrives to avoid paying interest and any late fees.

3. Buying a laptop that’s on sale using the store’s financing program.  
   This depends on whether or not the total paid at the sale price plus finance costs is less than the cost of waiting to pay in cash. Also, the buyer will need to discern if the laptop is needed immediately or the purchase can be delayed until the money has been saved to pay in cash. (Read about Jesse’s situation on page 12 of Student Guide 2 for an example of when and how not to finance the purchase of a laptop.) Ideally, the buyer should plan to set aside money in advance to be positioned with sufficient cash on hand to take advantage of a sale price without using credit.

4. Getting a loan to pay your credit-card bills.  
   If someone is unable to meet current credit obligations, it is unwise to take on more credit, especially if the new credit is at a higher interest rate. The best option is to increase income or decrease other expenditures to pay down the credit card balances as quickly as possible, starting with the credit account that has the highest interest rate.

5. Charging repairs to get your car running again.  
   This might be an example of a time to use credit, especially if the car is essential to get to work or school. A better option would be to have cash on hand in a type of emergency fund that can be tapped for this type of unexpected, necessary expense. Replenishing the emergency fund should then become a high priority.

   This isn’t a good reason to borrow because it is for a small purchase with short-term benefits. It makes more sense to allocate for this expense in a spending plan to have the cash on hand for the purchase rather than borrow money for something that most likely won’t have any value later.
Activity 2.7: Know the Limit

NAME: ___________________________ DATE: ____________

The 20–10 Rule for Borrowing Limit

<table>
<thead>
<tr>
<th>$ Total of</th>
<th>Should Be LESS Than</th>
<th>of Your</th>
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</thead>
<tbody>
<tr>
<td>Amount Borrowed*</td>
<td>20%</td>
<td>Annual Net Income</td>
</tr>
<tr>
<td>Monthly Payments</td>
<td>10%</td>
<td>Monthly Net Income</td>
</tr>
</tbody>
</table>

*Includes credit cards but not mortgages

Directions:

A. Use the 20-10 Rule to calculate the debt limits for Mariah’s and Jesse’s older siblings.

B. If you earn any income now, also compute your debt limits.

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Annual Net Income</th>
<th>Maximum Total Debt (20% Annual Net Income)</th>
<th>Maximum Monthly Payments (10% Monthly Net Income)</th>
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<td>$</td>
</tr>
<tr>
<td>Me</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>
# Activity 2.7: Know the Limit

**NAME:** KEY  
**DATE:**

## The 20–10 Rule for Borrowing Limit

<table>
<thead>
<tr>
<th>$ Total of</th>
<th>Should Be LESS Than</th>
<th>of Your</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount Borrowed*</td>
<td>20%</td>
<td>Annual Net Income</td>
</tr>
<tr>
<td>Monthly Payments</td>
<td>10%</td>
<td>Monthly Net Income</td>
</tr>
</tbody>
</table>

*Includes credit cards but not mortgages

### Directions:

A. Use the 20-10 Rule to calculate the debt limits for Mariah’s and Jesse’s older siblings.

B. If you earn any income now, also compute your debt limits.

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Annual Net Income</th>
<th>Maximum Total Debt (20% Annual Net Income)</th>
<th>Maximum Monthly Payments (10% Monthly Net Income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mariah’s sister</td>
<td>$6,500</td>
<td>$6,500 x .20 = $1,300</td>
<td>($6,500/12) x .10 = $54.17</td>
</tr>
<tr>
<td>Jesse’s brother</td>
<td>$24,750</td>
<td>$24,750 x .20 = $4,950</td>
<td>($24,750/12) x .10 = $206.25</td>
</tr>
<tr>
<td>Jesse’s sister</td>
<td>$35,800</td>
<td>$35,800 x .20 = $7,160</td>
<td>($35,800/12) x .10 = $298.33</td>
</tr>
<tr>
<td>Me</td>
<td><strong>N</strong></td>
<td>$N x .20 = $____</td>
<td>($N/12) x .10 = $____</td>
</tr>
</tbody>
</table>
Activity 2.9: Rights and Responsibilities of Borrowing

NAME:  

DATE:  

Directions:

Look at a credit card agreement, loan contract, or service agreement to find at least two rights and two responsibilities of the borrower and the same for the lender. Summarize your findings below.

<table>
<thead>
<tr>
<th>Type of Agreement or Contract:</th>
<th>Rights</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lender</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NAME: ___________________________ DATE: ___________________________

As you work through the lessons and activities in NEFE’s High School Financial Planning Program, compile your completed challenge activities into a personal financial planning portfolio. For this challenge task, use what you have learned in Lesson 2-4: Rights and Responsibilities to create your own personal Code of Conduct for Borrowing.

Although you might not need or even be able to take personal responsibility for credit now, you are on your way to developing the knowledge and positive habits that will help you avoid the pitfalls of debt problems. Consider how you will use what you learned about credit when you borrow, now and when you are legally able to enter into a credit contract agreement as an adult.

Directions:

☐ 1. Write out a personal statement that describes the habits and rules you will apply when using credit and managing debt. This personal Code of Conduct should be applicable to a variety of borrowing situations, whether to borrow money, use a credit card, take out a car loan, or pay for phone or Internet services.

   ■ Include standards of conduct you will follow when borrowing money and managing credit use. These rules for how you will behave—such as self-imposed dos and don’ts—should match your personal values and recommended habits for using credit.

   ■ Include standards of practice you will following when deciding whether or not to borrow, entering into credit contract agreements, managing your debt load, and engaging with lenders. Your standards might include decision-making criteria and how-to procedures to guide your actions when borrowing money and managing debt.

☐ 2. Preview the criteria listed in the Scoring Guide to plan your work. If you completed Challenge 2-B: Building Creditworthiness, refer to your personal assessment and strategies to establish a favorable credit rating.

☐ 3. Self-assess your work using the Scoring Guide. Optional: Ask a classmate or family member to peer assess your work using the Scoring Guide.

Tips for Writing a Code of Conduct

■ Consider how your code of conduct will help you put your values into practice.

■ Think about how the code of conduct can help you make decisions.

■ Include examples of acceptable and unacceptable behavior to clarify points.

■ Assess how easy or challenging it will be for you to live by the code of conduct.

■ Use simple, clear language that you will remember and that others will understand.
### Required Criteria

<table>
<thead>
<tr>
<th></th>
<th>Required Criteria</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>State at least two standards of conduct (rules for how you will behave) when</td>
<td>acceptable</td>
</tr>
<tr>
<td></td>
<td>borrowing money and managing credit use.</td>
<td>not acceptable</td>
</tr>
<tr>
<td>2.</td>
<td>State at least two standards of practice (procedures that you will follow)</td>
<td>acceptable</td>
</tr>
<tr>
<td></td>
<td>when borrowing money and managing credit use.</td>
<td>not acceptable</td>
</tr>
<tr>
<td>3.</td>
<td>Code of Conduct standards are realistic based on the known circumstances,</td>
<td>acceptable</td>
</tr>
<tr>
<td></td>
<td>stated criteria, and potential to achieve the desired outcome.</td>
<td>not acceptable</td>
</tr>
<tr>
<td>4.</td>
<td>You state how your Code of Conduct supports your own values and personal</td>
<td>acceptable</td>
</tr>
<tr>
<td></td>
<td>financial goals.</td>
<td>not acceptable</td>
</tr>
<tr>
<td>5.</td>
<td>You state the potential ways that you will benefit financially by adhering to</td>
<td>acceptable</td>
</tr>
<tr>
<td></td>
<td>your Code of Conduct in the long-term.</td>
<td>not acceptable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.</td>
<td>Standards and action strategies are appropriate according to the borrowing</td>
<td>acceptable</td>
</tr>
<tr>
<td></td>
<td>guidelines reviewed during learning sessions.</td>
<td>not acceptable</td>
</tr>
<tr>
<td>7.</td>
<td>Code of Conduct is presented in complete sentences.</td>
<td>acceptable</td>
</tr>
<tr>
<td>8.</td>
<td>Content is clearly presented in a logical manner according to your instructor’s standards.</td>
<td>acceptable</td>
</tr>
<tr>
<td>9.</td>
<td>Documentation is neat and easy to read.</td>
<td>acceptable</td>
</tr>
</tbody>
</table>

### Feedback:

Score: _______ / _______

---

High School Financial Planning Program  June 2014
OVERVIEW

Everyone needs to take precautions to protect personal information from being used by others without permission. Identity theft and fraud are big business—costing victims, companies, and governments billions of dollars a year. Even if you are able to fix a fraud problem without losing money, it will take you more time than you want to spend to gather evidence and inform others about the issue.

This lesson will help you plan ways to protect yourself from being a victim of identity fraud.

LEARNING OUTCOMES

In this lesson students will take steps to protect themselves from identity fraud. Along the way they will:

- Give examples of identity fraud.
- Describe how to address problems of fraud.
- Give examples of ways to protect against fraud.

Students will use what they learn to take action to keep their personal information safe.

PREPARATION

- Order a Module 2 Student Guide for each student. (The Guide is also available online to download.)
- Preview the lesson PowerPoint presentation, learning tasks, and Module 2 Student Guide, particularly pages 34-38.
- Print or download the Student Learning Plan for this lesson so each student has a copy.

WHAT YOU WILL NEED

- Module 2 Student Guide (pages 34-38)
- PowerPoint Presentation 2-5
- Student Learning Plan 2-5
- Activity 2.10: Take Preventive Action
- Info Sheet: Action Plan for Fraud (Task 4)
- Task: Safe and Secure (Taking It Home task)
- Internet (Tasks 2 and 4)

NOTES

Approximate time: 45 minutes (minimum) – 90 minutes (with extension activities)

### LEARNING TASKS

1. Participate in a scavenger hunt activity.

   **PROCEDURE**  
   - TIME ESTIMATE: 5-10 minutes
   - Ask the students, “What’s in your wallet?” Inform them that they are going to go on a financial scavenger hunt. Show Slide 2 and tell the students that they have three minutes to find these items in their wallets, backpacks, purses, or pockets. Instruct students to take a look and see how many of the items listed they currently have in their possession. [Do NOT mention that the lowest scores win.]

   - Ask if any students think they have a score of 20. Then survey the students who think they have at least 15 points or more.

   - Now it’s time to tell the students that this game is scored like golf—the one with the lowest score wins! Engage the students in a brief discussion on the potential dangers for various items:
     - **Credit card** – could lead to overspending; potential for someone to use without permission.
     - **Social Security number on any of your cards** – increased risk for identity theft.
     - **Passwords, PINs, paycheck stubs, and deposit slips** – could lead to unauthorized access to your information and bank accounts.

   - Finally, ask student what’s so scary about having $2 or more in loose change? Tell them that if they put their loose change in a piggy bank every night, the total collected could be anywhere from $20 to $100 at the end of the month!

   **SOURCE:** Adaptation of Scavenger Hunt activity designed by CJ Juleff, Executive Director of the Colorado Jump$tart Coalition, 2011.

2. Read about what happened to Jesse’s dad (page 34). Participate in a discussion about ways people are victims of identity fraud.

   **PROCEDURE**  
   - TIME: 10 minutes
   - Arrange for a student to read the story about Jesse’s dad (Student Guide, page 34). Ask for one or two volunteers to share a story about instances when they or a family member were a victim of identity fraud.

   - [Slide 3] Transition into the lesson by telling the students that they will learn about strategies to protect themselves from identity fraud. Preview the Learning Outcomes in the Student Learning Plan. By the end of this lesson, the students should be able to apply strategies to protect their information.
<table>
<thead>
<tr>
<th>LEARNING TASKS</th>
<th>TEACHING NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Slides 4, 5] Point out examples of how individuals have been victims of identity theft and fraud. Tell the students to study the Few Figures on Fraud chart on page 34 as you discuss how individuals are impacted by fraud. Point out that fraud impacts individuals (time to fix and possible costs) as well as businesses (require extra security strategies which cost money, time to fix, and reputation). In the end, business and consumers are inconvenienced and costs are passed on to consumers.</td>
<td></td>
</tr>
</tbody>
</table>

EXTENSION: As time allows, arrange for students to search online to find the answers to the following questions:

- What percentage of identity fraud crimes were committed by someone the victim knew?
- What are the five most common types of identity theft?

NOTES: “Child identity fraud is more than a hypothetical risk,” according to Tom Oscherwitz, chief privacy officer at ID Analytics. Find out more from a study about child identity fraud: www.idanalytics.com/news-and-events/news-releases/2011/7-12-2011.php

RESOURCES:

- FBI, “Identify Fraud,” www.fbi.gov/scams-safety/fraud/fraud#id
- Federal Trade Commission’s Identify Fraud site, www.ftc.gov/bcp/edu/microsites/idtheft
- Identity Theft Resource Center, www.idtheftcenter.org
- 2011 Child Identity Fraud Study, ID: Analytics whitepaper
### LEARNING TASKS

3. Share experiences about how you protect your personal information. Complete **Activity 2.10: Take Preventive Action** to evaluate how you protect your data.

4. Guess what—Mariah has lost her new credit card! She has confided in you but tells you not to worry—she's sure it will turn up soon. She doesn't want to tell her mom for fear she will freak out (again!) and not allow her to ever have a credit card.

   What would you tell Mariah to do?

### TEACHING NOTES

#### PROCEDURES

- **TIME: 10 minutes**

  - **[Slide 6]** Introduce students to the Federal Trade Commission’s strategy to Deter, Detect, and Defend against identity fraud. Arrange for a student to read about the information to keep safe (Deter section, page 35) and how to deter thieves (Keep It to Yourself, page 36). Pause to allow students time to complete **Activity 2.10: Take Preventive Action**. Ask students voluntarily to share any relevant stories about strategies they use to protect their personal profiles.

  - **[Slide 7]** Share additional strategies that help to prevent from having personal information misused.

  - **Display Slide 8 as the class reads page 37, including the chart about how customers discover fraud. This is a good time to review the reporting responsibilities that borrowers have when they discover their information has been stolen or possibly misused. Point out that value of confirming statements in a timely manner so any errors or questionable transactions can be reported within the agreement timeframes.**

  - **[Slide 9]** Point out actions to take when a person has been a victim of fraud. (This information is also available as a handout.) As time allows, introduce students to FTC’s Bureau of Consumer Protection website ([www.ftc.gov/bcp](http://www.ftc.gov/bcp)) to find out how to file a claim either online or in writing or to find out how the Bureau reports news on identity fraud and scams.

  - **Read the following scenario to the students. Encourage the students to write at least five action steps in the response to Mariah.**

    *Quick! Take out a sheet of paper and number down the side 1-5, skipping every two or three lines.*

    *Guess what—Mariah has lost her new credit card! She has confided in you but tells you not to worry—she’s sure it will turn up soon. She doesn’t want to tell her mom for fear she will freak out (again!) and not allow her to ever have a credit card.*

    *Free write for five minutes on what you would tell Mariah to do now that she has discovered that her credit card is missing. Focus on the steps she should take—don’t worry about spelling, grammar or punctuation. Try to come up with at least five actions.*

### MATERIALS

- **STUDENT GUIDE** Pages 35-36
- **SLIDES**
  - 6 – Protect From Fraud
  - 7-7 Tips to Thwart Thieves
- **ACTIVITY**
  - Activity 2.10: Take Preventive Action
  - Internet
  - Info Sheet: Action Plan for Fraud
### Lesson 2-5: Identity Fraud

<table>
<thead>
<tr>
<th>LEARNING TASKS</th>
<th>TEACHING NOTES</th>
<th>MATERIALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>- If you see a few students unable to write a single step, tell them to focus on the empathetic things they could do for Mariah as a friend. Examples: Help her trace her steps, track her purchases online to see the last place she used it, listen to her openly and without judgment, etc. ALTERNATIVE: If students are older, and the majority have a debit or ATM card, have them do this activity from their own perspective. Students can substitute “cellphone,” “PDA” or “parent’s credit card or ATM card” if they don’t have a credit card or ATM card of their own and can’t hypothesize this situation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Put up your own shield to protect yourself from identity fraud. Plan action to protect your personal information.</td>
<td>PROCEDURES</td>
<td>In-class or out-of-class assignment</td>
</tr>
<tr>
<td></td>
<td>- [Slide 10] Assign students to create a checklist they will use as a guide to protect their personal data from identity fraud. Arrange a date for students to report back on their progress to carry out the actions.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Create a checklist of at least five actions you will take, starting now, to protect your personal data.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Over the next week, document evidence of your actions.</td>
<td></td>
</tr>
</tbody>
</table>

---

### EXTENSION

Host a “Protect Your Identity Day” for parents and community members.

<table>
<thead>
<tr>
<th>PROCEDURE</th>
<th>In-class or out-of-class assignment</th>
</tr>
</thead>
</table>


### TAKING IT HOME

Test your family’s ID theft savvy by playing the Identity Theft Face Off game.

<table>
<thead>
<tr>
<th>PROCEDURE</th>
<th>Out-of-class assignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOTES: Encourage the students to complete the Identity Theft Face Off game provided by the Federal Trade Commission (<a href="http://www.consumer.ftc.gov/media/game-0005-id-theft-faceoff">http://www.consumer.ftc.gov/media/game-0005-id-theft-faceoff</a>).</td>
<td></td>
</tr>
</tbody>
</table>
## TEACHER LESSON PLAN

### Lesson 2-5: Identity Fraud

<table>
<thead>
<tr>
<th>LEARNING TASKS</th>
<th>TEACHING NOTES</th>
<th>MATERIALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAKING IT HOME</td>
<td>PROCEDURE</td>
<td>Out-of-class assignment</td>
</tr>
<tr>
<td>Check your online privacy settings at home.</td>
<td><a href="http://www.whitehouse.gov/sites/default/files/privacy-final.pdf">www.whitehouse.gov/sites/default/files/privacy-final.pdf</a>.</td>
<td>ACTIVITY Task Safe and Secure</td>
</tr>
<tr>
<td>FURTHER STUDY</td>
<td>PROCEDURE</td>
<td>Out-of-class assignment</td>
</tr>
</tbody>
</table>

### PROCEDURE
- Assign students to check their computer security at home or on their laptops. This is an opportunity to review the school policies regarding computer use.


### NOTICES: Partner with your computer instructor or school IT staff for helpful materials, tips and websites. Consider inviting this person into your classroom to answer student questions.

### RESOURCES:
- **PC Privacy and Security Assistance (Microsoft):** [www.microsoft.com/security/default.aspx](www.microsoft.com/security/default.aspx)
- **Apple Privacy and Security Assistance (scroll down the screen):** [www.apple.com/safari/features.html#security](www.apple.com/safari/features.html#security)
- **Facebook:** [www.facebook.com/help/privacy](www.facebook.com/help/privacy)
- **MySpace:** [www.myspace.com/pages/privacysettings](www.myspace.com/pages/privacysettings)
- **Twitter:** [https://twitter.com/privacy](https://twitter.com/privacy)

### EXTENSION
Host a “Protect Your Identity Day” for parents and community members. Use the Federal Trade Commission’s toolkit as a guide to plan and host this event.

### TAKING IT HOME
Test your family’s ID theft savvy by playing the Identity Theft Face Off game hosted by the Federal Trade Commission. Choose a character whose identity has been stolen—literally!

### TAKING IT HOME
How safe are you online or when you use a computer? If you have a computer at home, check your online privacy settings and your systems security with this checklist:
- Your computer files are backed up on a regular basis.
- Your Internet security level is set to “High” or “Medium High.”
- Your Internet privacy setting blocks all cookies or blocks cookies from sites that do not have a compact privacy policy.
- Your Internet privacy settings do not allow websites to request your location.
- You have checked your privacy settings for all media and social networking websites you use.
Identity Fraud

TODAY YOU WILL . . .
TAKE STEPS TO
PROTECT YOURSELF AGAINST FRAUD
Ask the students, “What’s in your wallet?” Inform them that they are going to go on a financial scavenger hunt. Show Slide 1 and tell the students that they have three minutes to find these items in their wallets, backpacks, purses, or pockets. Instruct students to take a look and see how many of the items listed they currently have in their possession. [Do NOT mention that the lowest scores win.]

Ask if any students think they have a score of 20. Then survey the students who think they have at least 15 points or more.

Now it’s time to tell the students that this game is scored like golf—the one with the lowest score wins! Engage the students in a brief discussion on the potential dangers for various items:

- **Credit card** – could lead to overspending; potential for someone to use without permission.
- **Social security number on any of your cards** – increased risk for identity theft.
- **Passwords, PINs, paycheck stubs, and deposit slips** – could lead to unauthorized access to your information and bank accounts.

Finally, ask student what’s so scary about having $2 or more in loose change? Tell them that if they put their loose change in a piggy bank every night, the total collected could be anywhere from $20 to $100 at the end of the month!

Arrange for a student to read the story about Jesse’s dad (page 34). Ask for one or two volunteers to share a story about instances when they or a family member were a victim of identity fraud.

Transition into the lesson by telling the students that they will learn about strategies to protect themselves from identity fraud. Preview the Learning Outcomes in the Student Learning Plan. By the end of this lesson, the students should be able to apply strategies to protect their information.
Student Guide, pages 34-35

- Point out examples of how individuals have been victims of identity theft and fraud. Tell the students to study the Few Figures on Fraud chart on page 34 as you discuss how individuals are impacted by fraud. Point out that fraud impacts individuals (time to fix and possible costs) as well as businesses (require extra security strategies which cost money, time to fix, and reputation). In the end, business and consumers are inconvenienced and costs are passed on to consumers.

EXTENSION:

As time allows, arrange for students to search online to find the answers to the following questions:

- What percentage of identity fraud crimes were committed by someone the victim knew?
- What are the five most common types of identity theft?
• Teens have something extremely valuable to identity thieves—Social Security Numbers with no credit history. In fact, identity fraud for Americans 18 years and under is growing fast. A recent report found 10% had someone else using their Social Security Number—a rate that’s 51 times higher than the adults studied.

• Teens 15-18 years old were the hardest hit although kids 11-14 years old weren’t far behind. But the youngest victim was only five months old.

• This type of fraud is particularly insidious because it’s hard to detect and may go undiscovered for years for two reasons:

  – There’s currently no way for businesses to verify a name and birth date when the Social Security Number belongs to a minor. All they see is a clean credit history—so the criminal can attach any identity to it.

  – Trying to get a credit report for the minor won’t work either. Consumers have to give a name and birth date to order a credit report, and those usually won’t match the one with the history of fraud. So, the child may still have no credit report at all. Often, the duplicate numbers aren’t revealed until the victim applies for a loan or credit card in his/her own name and questions the bad credit the lender found.

• Identity monitoring (which is different from credit monitoring) may be the only reliable way of detecting fraud sooner rather than later.

Source: Richard Power, Child Identity Theft, Carnegie Mellon CyLab Report
Introduce students to the Federal Trade Commission's strategy to Deter, Detect, and Defend against identity fraud. Arrange for a student to read about the information to keep safe (Deter section, page 35) and how to deter thieves (Keep It to Yourself, page 36). Pause to allow students time to complete Activity 2.10: Take Preventive Action. Ask students voluntarily to share any relevant stories about strategies they already use to protect their personal profiles.
7 Tips to Thwart Thieves

- Keep sensitive information close to the vest.
- Lighten up your wallet.
- Never leave blanks on a charge slip.
- Stick to secure web pages.
- Shred ruthlessly.
- Be computer safe by using firewalls, anti-spyware, and anti-virus software.
- Guard your Smartphone, too!

Share additional strategies that help to prevent from having personal information misused.

7 Tips to Thwart Identity Thieves: Here are seven more strategies to help you steer clear of trouble:

- Keep sensitive information close to the vest. Don’t give to anyone unless you’ve contacted them and know they’re a reputable company. Whenever a business asks for your Social Security Number, ask if you can use another identifier instead.

- Lighten up your wallet. Only carry your Social Security card when you need it (like for employment paperwork). Also, leaving unneeded credit and debit cards at home will limit the work if your wallet is lost or stolen.

- Never leave blanks on a charge slip. Draw lines through them so someone can’t add new amounts.

- Stick to secure web pages. Don’t enter personal information on sites you’ve clicked to from an email link—type the company’s URL into your browser instead. Also, look for a padlock symbol and “https:” at the beginning of the URL to confirm the page is secure.

- Shred ruthlessly. Shred all credit card solicitations you get in the mail, as well as old documents and receipts with social security or complete account numbers on them.

- Be your computer safe by using firewalls, anti-spyware and anti-virus software. Keep all software and browsers updated. And never enter sensitive information or access financial accounts on a public or unsecure Wi-Fi connection.

- Guard your Smartphone too! They’re a treasure trove of personal information these days. Use auto-lock with a password, don’t turn Wi-Fi and Bluetooth on until needed, and verify apps are safe by doing a quick online search before downloading anything.
Display this slide as the class reads page 37, including the chart about how customers discover fraud. This is a good time to review the reporting responsibilities that borrowers have when they discover their information has been stolen or possibly misused. Point out that value of confirming statements in a timely manner so any errors or questionable transactions can be reported within the agreement timeframes.
Point out actions to take when a person has been a victim of fraud. (This information is also available as a handout.) As time allows, introduce students to FTC’s Bureau of Consumer Protection website (www.ftc.gov/bcp) to find out how to file a claim either online or in writing or to find out how the Bureau reports news on identity fraud and scams.

Read the following scenario to the students. Encourage the students to write at least five action steps in the response to Mariah.

Quick! Take out a sheet of paper and number down the side 1-5, skipping every two or three lines.

Guess what—Mariah has lost her new credit card! She has confided in you but tells you not to worry—she’s sure it will turn up soon. She doesn’t want to tell her mom for fear she will freak out (again!) and not allow her to ever have a credit card.

Free write for five minutes on what you would tell Mariah to do now that she has discovered that her credit card is missing. Focus on the steps she should take—don’t worry about spelling, grammar or punctuation. Try to come up with at least five actions.
Assign students to create a checklist they will use as a guide to protect their personal data from identity fraud. Arrange a date for the students to report back to you on their progress to carry out the actions.

A. Create a checklist of at least five actions you will take, starting now, to protect your personal data.

B. Over the next week, document evidence that you have carried out the actions.
OVERVIEW

Everyone needs to take precautions to protect personal information from being used by others without permission. Identity theft and fraud are big business—costing victims, companies, and governments billions of dollars a year. Even if you are able to fix a fraud problem without losing money, it will take you more time than you want to spend to gather evidence and inform others about the issue.

This lesson will help you plan ways to protect yourself from being a victim of identity fraud.

LEARNING OUTCOMES

In this lesson you will take steps to protect yourself from identity fraud. Along the way you will:

- Give examples of identity fraud.
- Describe how to address problems of fraud.
- Identify ways to protect against fraud.

Use what you learn to take action to keep your personal information safe.

LEARNING TASKS

These tasks match pages 34-38 in Student Guide 2.

___ 1. Participate in a scavenger hunt activity.

___ 2. Read about what happened to Jesse’s dad (page 34). Participate in a discussion about ways people are victims of identity fraud.

___ 3. Share experiences about how you protect your personal information. Complete Activity 2.10: Take Preventive Action to evaluate how you protect your data.

___ 4. Guess what—Mariah has lost her new credit card! She has confided in you but tells you not to worry—she’s sure it will turn up soon. She doesn’t want to tell her mom for fear she will freak out and not allow her to ever have a credit card. What would you tell Mariah to do?

___ 5. Put up your own shield to protect yourself from identity fraud.
   A. Create a checklist of at least five actions you will take, starting now, to protect your personal data.
   B. Over the next week, document evidence that you have carried out the actions.

EXTENSION

Host a “Protect Your Identity Day” for parents and community members. Use the Federal Trade Commission’s toolkit as a guide to plan and host this event.

TAKING IT HOME

How safe are you online or when you use a computer? If you have a computer at home, check your online privacy settings and your systems security with this checklist:

- Your computer files are backed up on a regular basis.
- Your Internet security level is set to “High” or “Medium High.”
- Your Internet privacy setting blocks all cookies or blocks cookies from sites that do not have a compact privacy policy.
- Your Internet privacy settings do not allow websites to request your location.
- You have checked your privacy settings for all media and social networking websites you use.
NAME: 

DATE: 

**Directions:**

1. For each of the suggestions above, evaluate what you do now to deter thieves from stealing your personal information.

2. To the left of each bullet, write your rating as “+” if the advice matches your actions most of the time, “-” if you never carry out the action, or “+/-” if you sometimes do the action but could be more careful.

<table>
<thead>
<tr>
<th>My Rating</th>
<th>Preventive Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>+</td>
<td>Stay mum. In your profiles, don’t list your real birth date, mailing address, or anything you use as a password or to answer a security question for your financial accounts.</td>
</tr>
<tr>
<td>+/-</td>
<td>Become a control freak. Use privacy settings to limit the personal information people outside your network can see.</td>
</tr>
<tr>
<td>-</td>
<td>Pick a strong password. Hackers pretending to be you can scam your friends. Create a non-obvious password that includes a mix of numbers, symbols, and letters (both capitals and lowercase).</td>
</tr>
<tr>
<td>-</td>
<td>Stay cautious. Messages sent via social networking sites may be even less secure than typical email when it comes to viruses, malware, and fraudulent links to scam your information.</td>
</tr>
<tr>
<td>-</td>
<td>Just say “ignore.” If you can’t bring yourself to reject a stranger’s “friend” request, just ignore it. Scammers will quickly move on to someone else.</td>
</tr>
<tr>
<td>-</td>
<td>Watch your apps. Facebook and other social sites do not screen new apps for security issues and viruses. Search an app’s name online before adding to see if there are any reported problems.</td>
</tr>
</tbody>
</table>
Here’s an action plan for two common scenarios—finding unauthorized charges on a credit card or unknown accounts on your credit report and discovering your wallet or purse has been stolen:

<table>
<thead>
<tr>
<th>Suspicious Charges or Fraudulent New Accounts</th>
<th>Stolen Wallet or Purse</th>
</tr>
</thead>
</table>
| **File a dispute.**  
Tell the creditor or credit agency you found a suspicious transaction. Credit card issuers should give you a credit for the suspicious transaction while they investigate it. | **File a report.**  
Inform the stolen card department at your credit and debit card companies. The company will make a note on your account and send a new card with a different number. |
| **File a police report.**  
Call the non-emergency number (unless you’re in danger) and explain what happened. After asking a few questions, they should give you a case number, which you may need to help remedy the situation later. |  |
| **Place a “fraud alert” on your credit report with all three credit reporting agencies.**  
For the next 90 days, businesses must try to verify that you’re the applicant before opening any new credit accounts in your name. |  |
| **Write your credit card companies.**  
Follow up your calls with a letter that includes your account number, when you noticed the problem, the date you reported the loss to them and your police case number (if available). The letter helps prove when you contacted the company in case there’s an issue later. |  |
| **Contact the FTC.**  
Report any fraud to the Federal Trade Commission at www.ftc.gov/idtheft or 1-877-IDTHEFT. They work with police departments across the world to shut down identity theft rings. | **Call your cellphone company.**  
Neglect a missing cellphone and you may get a bill next month for $1,000 in international calls that you didn’t make. Your cellphone provider can lock the phone’s service so it can’t be used. |
| **Document everything.**  
Record what happened, who you talked to, and what they said for every conversation you have with them about the fraud problem. |  |
| **In a few months, check your credit report to confirm there are no new problems.**  
Check it again periodically after that. If there are negative items, file a dispute with the credit agency. You may also want to add a statement to your credit reports noting that you’re the victim of identity fraud and are working to get your credit restored. |  |
NAME:  

DATE:

Directions:

How safe are you online or when you use a computer? If you have a computer at home, check your online privacy settings and your systems security with this checklist:

☐ Your computer files are backed up on a regular basis.

☐ Your Internet security level is set to “High” or “Medium High.”

☐ Your Internet privacy setting blocks all cookies or blocks cookies from sites that do not have a compact privacy policy.

☐ Your Internet privacy settings do not allow websites to request your location.

☐ You have checked your privacy settings for all media and social networking websites you use. List those websites here:

_____________________________________________________________________

After you check for these items, review your checklist with your family and discuss the level of security and privacy you and your family want. Upgrade your privacy and security as needed.

Don’t have a computer at home? Then take similar steps to secure your privacy on any social and networking websites you use. Also, ensure that your cell phone and PDA are password protected. Follow the guidelines on page 36 of your Student Guide to create a strong password.