

CREDIT AND DEBT

Exploration Overview

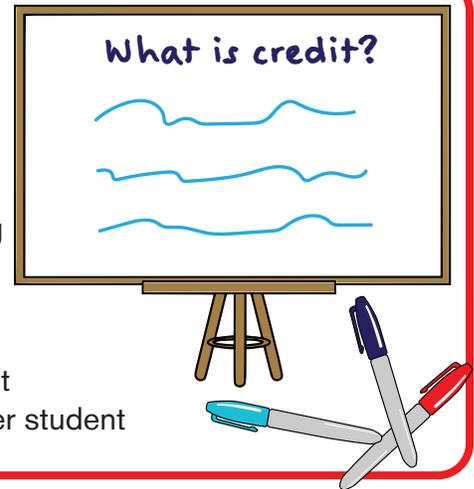
MATERIALS

Whiteboard & Markers

- Throughout the exploration there will be group discussions. Note taking to keep track of ideas shared and definitions will be helpful.
- Use a whiteboard and markers as a visual aid in progressing the discussion and highlighting important points.

Worksheets & Handouts

- Proceed with Caution worksheet—1 per student
- Credit Rights and Responsibilities worksheet—1 per student
- Credit Rights and Responsibilities Scenarios handout—1 per student



STUDENT LEARNING OBJECTIVES

Our credit history is an important part of our financial identity. Our spending habits and payment histories often serve as a means by which some organizations and companies determine how much they can trust us. Since our histories carry so much weight, it is imperative that we maintain good credit histories. Through this exploration students will:

- Define credit, credit report, credit history.
- Make personal connections between key concepts (credit) and their own lives.
- Explain why it is important to establish a positive credit history and explain the value of credit reports to borrowers and lenders.
- Identify entities who have legal access to their credit reports.
- Apply legal guidelines to determine permissible use of a credit report other than granting credit.
- Describe the effects of credit history on a person's life.

TERMS & DEFINITIONS

- Credit**—the providing of money or goods with the expectation of payment in the future
- Credit Report**—a record of your credit history that includes information about your identity, existing credit, public record, and inquiries about you
- Credit History**—information pertaining to a person's past financial activities in terms of borrowing and repaying loans
- Transcript**—an official copy (of a student's educational record)

This exploration was adapted from the financial literacy curriculum from Pricewaterhouse Coopers' *Earn Your Future*[®] program. This program was developed as part of PwC's commitment to helping students develop critical financial skills and to providing educators with resources to teach those skills.

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Exploration Activities

PART 1: WHAT IS CREDIT?

Introduction

Students may or may not already have an idea about what the term credit means. They may know it in the financial sense that this activity is focused on or they might be more familiar with it in an academic sense—like getting credit for an assignment. To open this exploration, start with a discussion of the term credit to assess what students already know and to make connections between more familiar uses and the way it will be used in this activity.

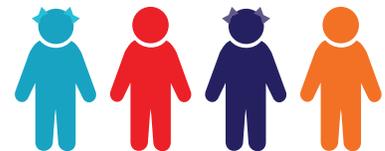
- Ask: **“How many of you know something about credit?”** Have volunteers offer up some of their ideas about what credit is to begin the discussion. Write down some of the points made on the board.
- Ask: **“Does anyone think they can define the word credit?”** Adding to what notes are on the board, record definitions offered by student volunteers. Discuss the points students made and the definitions mentioning where students have the right ideas and where they are a little off track. Make any connections you can between their current conceptions of the word credit and the financial term credit.
- Share the definition of credit we will be working with for the rest of this activity. Write it on the board and read it out loud.
- Discuss this definition of credit. **“So when we are using credit, we are getting something now because we are promising to pay for it in the future. This sounds like a pretty good deal, huh? Actually, there is a little more to it than that. Our goal today is to figure out some more of the ins and outs of credit.”**



The Credit Race

To test the students' credit knowledge so far and possible misconceptions/misunderstandings, have them play a short game we'll call "The Credit Race." Have at least four student volunteers line up in a horizontal line at the back of the room to play. Depending on the size of your space, you can include as many students as are willing to play. Then follow these instructions:

- Explain to the lined up students that you are going to read a set of true or false statements, one at a time. As each statement is read, students should indicate whether they believe it to be true or false by using a thumbs up or thumbs down signal.
- Once all students have signaled, ask any remaining, non-participating students what they think the right answer is, then give the correct answer. Whoever had the answer right can take one step forward. All others stay put. There are eight total statements.



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- Read these statements one by one and give the answer:
- (1) Credit is “free money.” // **False**—you have to pay it back.
 - (2) If you buy with credit, you are responsible for paying the money back at a time that is convenient for you. // **False**—a monthly payment is required.
 - (3) If you buy with credit, you are allowed to pay back as much as you want at a time. // **False**—there is a minimum payment amount.
 - (4) Nothing really happens if you don’t pay back the amount you spent using credit. // **False**—you can be charged late fees, damage your credit score, have your card frozen, have your debt sent to a collection agency or be sued to have your salary garnished.
 - (5) There is a report that keeps track of every time you use credit. // **True**—it’s called a credit report.
 - (6) When you pay back money that you spent through credit, you pay back the exact same amount. // **True AND False**—interest is charged on any balance not paid off in full by the due date each month.
 - (7) It is illegal to deny someone a credit card if they apply for one. // **False**—lenders will make decision on extending credit based on your credit history.
 - (8) A cell phone contract is a form of credit. // **True**—payments are made after the usage of service so the initial service is given to you on credit.
- End with a discussion of the answers. Ask: **“Did anything surprise students during the game? Is there anything they are still confused about?”** The rest of the exploration will go more in-depth on credit, credit reports and credit rights and responsibilities.



PART 2: WHY SHOULD WE CARE ABOUT CREDIT?

Credit Reports

Now that students understand what credit is, they need to understand why it is important and how it can affect their future. Go through a discussion of credit reports and connect this idea to something they are familiar with—school records.

- Ask: **“Has anyone heard of a credit report?”** Have volunteers offer up some of their ideas about what a credit report is to begin the discussion. Write down some of the points made on the board.
- To better understand what a credit report is, help students relate it to something they are more familiar with. Ask: **“Can anyone explain what school records are and why they are important?”** Adding to what notes are on the board, record some of what students offer up to explain school records.
- Discuss the definition of transcript. A transcript is a report that gives the history of your time in schools. It tells your personal information and outlines your academic history, which means your grades, test scores and other information about your life in school. When you move to a new school, that information is passed along to the new school.
- Discuss why a new school would want that information and what your transcript taken as a whole could tell the school about you. Use this to make connections to the definition of credit report. A credit report is like a transcript in that it helps people who look at it to determine how responsible you are when it comes to handling your money.
- Ask: **“What types of information might be on a credit report?”** Write down some of their ideas as they call them out. Offer some suggestions of your own if students get stuck—

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personal information, credit account history, credit inquiries and public records. Write the definition of credit report on the board.



🟦 Ask: “Who do you think might want to know these things about you? In other words, who might be interested in looking at your credit report?” Write up students correct ideas as they are offered. Add any of the following agencies they miss: cell phone companies, utility companies, potential employers, landlords, lenders, insurance companies, credit card companies, state and local child support enforcement agencies and car dealers.

🟦 Break students up into pairs. Have students think about why each of these different agencies would want to access your credit report.

🟦 Come back together as a group and have pairs volunteer to share some of their ideas they came up with. Ask: “Were you surprised by some of the groups that have access to your credit? Why or why not?”

Credit Rights and Responsibilities

Now that students have an understanding for what credit is and what a credit report is, move on to the worksheets to apply this knowledge. It is important to understand some of the challenges young people face in maintaining good credit and also to be aware of what rights and responsibilities we have in our credit decisions.

🟦 Pass out the **Proceed With Caution** worksheet to the students. Have them work through it on their own selecting each answer they think is right. Once students are finished go over the correct answers with them. Answer: (1) b // (2) a // (3) c // (4) c // (5) b // (6) a.

🟦 Discuss the answers. Ask: “What reaction did you have to finding out how many young people have credit cards, the number of cards they have and the average balance?” Feel free to interject relevant comments to steer the discussion. Students should understand having credit is a big responsibility and can have great implications on their financial future.

🟦 Now pass out the **Credit Rights and Responsibilities** worksheet and scenarios handout.

This is the last piece of the activity. Students should understand what credit is and now they can begin to understand how to use it responsibly. Have students match each of the 4 scenarios to one or more of the listed credit rights and responsibilities in the table. The answer key is shown below.

🟦 End by reflecting back on the notes you have taken throughout the exploration, reiterating key points and definitions. Have students volunteer to share some things they learned and any insights they have into how this will affect them moving forward.

Credit Rights		Credit Responsibilities	
	You have the right to see your personal information on credit reports.	1	You must notify credit card companies and financial institutions immediately when you have lost credit cards, debit cards or if your checks are lost or stolen.
	Lenders are required to let you know within 30 days if they have decided to make a loan to you or not.	4	You must pay your bills by the required due dates.
	If there are errors on your credit report you have the right to have those errors corrected.	3	You should make sound decisions, based on good information, about how to use credit.
	Institutions and organizations that extend or offer credit are not allowed to make decisions based on a person's sex, national origin, marital status, color, race or age. They are not even allowed to ask for this information.	3	You should know the interest rates and fees that you are required to pay for any loan or credit card that you apply for.
2	If you are denied credit, you have the right to know why. If it is because of something in your credit report, the lender must provide you with the name of the credit agency that gave them the credit report. They must also give you the address and telephone number of the agency.		You should keep your receipts for your purchases.

Proceed with Caution

1. What is credit?
 - a. When you are recognized for doing a good job
 - b. When you borrow money from someone and promise to pay them back later
 - c. When you are able to use cards to make purchases
2. What is interest?
 - a. Extra money you have to pay back to the lender
 - b. Something that you like to do in your free time
 - c. The amount of money you borrow from a lender
3. What is the process known as “credit solicitation”?
 - a. When people contact the credit card companies and ask about getting a credit card
 - b. When people spend too much on their credit card and receive a notice in the mail
 - c. When applications for credit cards are sent to your home through the mail
4. What percentage of people in their late teens and early 20s have credit cards?
 - a. 40%
 - b. 60%
 - c. 80%
5. Of the people in their late teens and early 20s who have a credit card, what percentage of these people have four or more credit cards?
 - a. 15%
 - b. 25%
 - c. 35%
6. What is the credit card balance held by the average young person?
 - a. \$2,700
 - b. \$3,700
 - c. \$4,700



Credit Rights & Responsibilities

Each of the statements below represents a true fact about your credit rights and responsibilities. Read all of the statements. Next, read the scenarios you have been given. Write the number of the scenario next to the right or responsibility you think is being described.

Credit Rights		Credit Responsibilities	
	You have the right to see your personal information on credit reports.		You must notify credit card companies and financial institutions immediately when you have lost credit cards, debit cards or if your checks are lost or stolen.
	Lenders are required to let you know within 30 days if they have decided to make a loan to you or not.		You must pay your bills by the required due dates.
	If there are errors on your credit report you have the right to have those errors corrected.		You should make sound decisions, based on good information, about how to use credit.
	Institutions and organizations that extend or offer credit are not allowed to make decisions based on a person's sex, national origin, marital status, color, race or age. They are not even allowed to ask for this information.		You should know the interest rates and fees that you are required to pay for any loan or credit card that you apply for.
	If you are denied credit, you have the right to know why. If it is because of something in your credit report, the lender must provide you with the name of the credit agency that gave them the credit report. They must also give you the address and telephone number of the agency.		You should keep your receipts for your purchases.

Credit Rights & Responsibilities Scenarios

- 1:** Allison recently opened a checking account at her local bank. When she opened her account, she was told that she needed to order checks. She picked out a design with butterflies on a blue background. The bank manager told her that her checks would arrive in one week. After three weeks, she still had not received her checks. She believes her checks have been lost in the mail. She decides to call the bank and let them know.
- 2:** Marcos decided that he wanted to buy a motorcycle. After visiting several car lots, he found the bike he wanted. He spoke with a salesperson to ask what he needed to do to get the motorcycle. He was told that he needed to fill out some paperwork to start the loan process. Marcos filled out all of the paperwork and gave it to the salesperson. The salesperson entered the information into his computer. After a few minutes, he looked at the screen and then told Marcos that he couldn't give him the loan for the motorcycle. Marcos was confused and disappointed. The salesperson told Marcos there was nothing he could do and then he went to help another customer.
- 3:** Mia has been working all summer long and has saved almost \$1,000. There is a laptop that she has been wanting to purchase. One day she sees an advertisement in a newspaper that indicates the store that is selling the laptop has some special deals going on. When she goes down to the store, she asks the salesperson to explain the promotional offer to her. The woman says that if Mia opens a credit account with the store, she will save 10% off the price of the computer. Mia asks about the interest rate charged on the credit account. The salesperson informs her that it is a 29% interest rate. After doing some math, Mia figures out that it could cost her \$200 more if she buys the computer now using the special offer. She decides to wait until she has saved some more money.
- 4:** David got a new cell phone and new cell phone contract two months ago. His phone has lots of features and can do many things that his friends' phones cannot do. His friends all wish they had a phone like David's. Approximately 30 days after David got his phone, he received a bill in the mail. The bill said that he needed to pay the amount due by the 15th of the month. David thought he had plenty of time and put the bill to the side. He then forgot about the bill. After another 30 days, David received another bill. This time he owed twice the amount and an additional \$25 because he never paid the first bill.