

PROJECT F.U.N.D.S

*Fun Understanding Nickel
and Dime Savings*



CHILDREN'S AID SOCIETY

Workshop III:

What is Credit?

Created by: Tanya A. Ramos

For use with Middle School Students



PRESENTATION OUTLINE:

What is Credit?

OVERVIEW

Students discuss the advantages and disadvantages of using credit to make everyday purchases. In small groups students will examine a credit card statement, determine how to use credit wisely \ and review the importance of maintaining good credit.

OBJECTIVES: Students will:

- Understand how credit works.
- Identify the costs and benefits of using credit.
- Review the ways people use credit.
- Identify the advantages of buying goods and services with credit.

LESSON # I

TIME NEEDED: Approximately 45 minutes

GOALS: Students will understand how credit cards work.

OBJECTIVES: Students will understand that credit cards are sometimes used in place of money.
Students will understand that credit cards are ways of borrowing money.
Students will understand that credit card users must pay interest if purchases are not paid in full.
Students will understand why people use credit cards.
Students will identify the advantage and disadvantages of using credit cards.
Students will be able to define interest, finance charge and service credit.

MATERIALS NEEDED: Chart paper and markers (for teacher) or blackboard and chalk and Handout, "Interest on a T.V. purchase".

INTRODUCTION

- Hold up a credit card. Ask students if they can tell you what it is and how it works.
- Ask students to name all the credit cards they are familiar with. Explain the differences between store credit cards (i.e. Macy's card) and other credit cards (i.e. Visa card). Explain the concept of revolving credit and provide an example of a credit card that does not offer revolving credit (i.e. American Express).
- Ask students what credit means. Have students provide examples of credit. (*Students will mention credit cards, however, few realize that using credit is a form of borrowing money.*)
- When a customer uses a credit card, the bank that issues the credit card pays for the purchases the customer made. The customer is responsible for paying the bill when it arrives, if the customer does not pay in full, he or she will be charged **INTEREST**. If the customer pays late, they will be charged late charges that range from \$25 to as much as \$30. (Remind students that interest can be both earned or paid. In terms of the latter, the interest comes in the form of a finance charge.)
- Explain that credit card users pay a finance charge if they do not pay in full at the end of the cycle period. Purchasing on credit means paying at a future date.

ACTIVITY

- Why do people use credit to buy expensive items.
- Give students time to brainstorm.
- Write their answers on the board. (*If people waited until they saved enough for the item, it would take a long time. They want buy expensive clothes now, or the stereo system now.*)
- ◆ Help students understand that although the credit card allows you to purchase items immediately when needed, paying it over time means that you may actually pay more for the item than it originally cost.

Exploration:

- Ask students if they can name some advantages and disadvantages of using credit cards to make purchases. List their ideas on the chalkboard. (*Advantages: immediate use of goods or services, ability to take advantage of good sales, safe /convenient alternative to carrying cash. Disadvantages: adds to one's debt, finance charges, easy to overspend.*)

- Explain to students that credit cards are not the only form of credit. When talking about credit we must consider electricity, natural gas, phone service and water service. This type of credit is called **service credit**- *a service that we use now and pay for after we have used it.*
- Ask students to name services in their home that their parents pay for later. (*Phone service, water, newspaper delivery.*)
- Why are the phone, electric, and other companies willing to provide the service first and allow people to pay later? (*The companies' customers don't want to pay for a service in advance. A company doesn't know how much to charge for the service because it doesn't know exactly how much gas or electricity a customer will use or how many long-distance phone calls a customer might make.*)

Assessment:

- Distribute handout on calculating interest on the purchase of a T.V.
- Allow students to work on sheet. (*For instance, paying for a \$499 TV over 18 months, \$31.85 a month, at 18.8 percent interest, means the TV really cost about \$575.*)
- Allow students to share the process they used to arrive at an answer and how much the TV really cost.

LESSON # 2

TIME NEEDED: Approximately 45 minutes

GOALS: Students will understand how to read a credit card statement.
Students will learn how to use credit cards wisely.

OBJECTIVES: Read a credit card statement.
Define a credit history.
Learn the 3 C's of credit.
Learn the steps to building up credit.

MATERIALS NEEDED: Chart paper and markers (for teacher) or blackboard and chalk and Handout II, "Credit Card Statement, Handout III, "Do's and Don'ts with credit, Handout IV, "Credit History".

- Tell students that the way they use their credit will determine whether they will qualify for credit in the future.
- Ask students if they know what a "credit history" is.
- Explain: *Credit history is basically a historical record of how a person has handled his or her finances and how he or she pays back debt, such as loan or credit card purchases. Remind students that without a solid credit history, credit is difficult to obtain. It is important to have good credit if you ever want to purchase a home or a car.*

ACTIVITY

- Ask students what they think are some of the factors used in determining whether an individual will be extended credit.
- **Review the three "c's" of credit:**
 1. Character: Does the person pay?,
 2. Capacity: What are the person's current and projected sources of income.
 3. Conditions: What economic conditions may adversely affect the person's ability to pay?

Exploration:

- Distribute a credit card statement. Discuss the statement with the class and have them answer the questions on the handout.
- Distribute handout on the do's and don'ts of using credit. Discuss.

Closure:

- Distribute credit history handout.
- Review it with the class.
- Pick on various students to read sections.

SUMMARY AND REVIEW

- What are the advantages of buying goods and services with credit?
- Remember that you should always use credit wisely or you can end up paying a lot of money in interest.
- Responsible financial behavior will help individuals build and maintain a good credit history which is an important factor in determining whether an individual will qualify for credit in the future. (i.e. home mortgage.)