# Lesson 6.1: Credit: The Most Important Grade You'll Ever Earn

## Lesson Author

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## Standards and Benchmarks

See page 5.

## Lesson Description

In this lesson, students take part in a collaborative activity that asks them to identify 12 credit-related statements as being either true or false. The activity helps students examine the advantages and disadvantages of using credit and allows students to understand how to establish good credit. To obtain answer keys for the handouts and assessment in this lesson, create an account on FederalReserveEducation.org.

## Concepts

Annual percentage rate
Credit
Credit score

## Objectives

Students will be able to:

- Examine the advantages and disadvantages of using credit to make purchases.
- Explain how to establish good credit.

## Compelling Question

How do credit decisions affect your financial life?

## Time Required

45–60 minutes

## Materials

- Credit: The Most Important Grade You'll Ever Earn Lesson 6.1 Slides
- Handout 6.1.1: Individual Answers, one copy for the teacher and one copy for each student
- Handout 6.1.2: True Card, one copy for each group of students
- Handout 6.1.3: False Card, one copy for each group of students
- Handout 6.1.4: Extra Credit Card, one copy for each group of students
- Handout 6.1.5: Group Score Sheet, one copy for each group of students

- Handout 6.1.6: The Pros and Cons of Using Credit, one copy for the teacher and one copy for each student
- Chart paper, one sheet per group of two to three students

## Procedure

1. Ask students:

    a. What is credit? (*Answers will vary. Accept all reasonable answers.*)

    b. Why might it be the most important grade you own? (*Answers will vary. Accept all reasonable answers.*)

2. Display Slide 2 and define **credit** as the granting of money or something else of value in exchange for a promise of future repayment.

3. Display Slide 3 and play the SNL video. Ask students to summarize the video.

    Note: The video can be found at https://www.youtube.com/watch?v=R3ZJKN_5M44.

4. Tell the students that they will be playing a game to introduce them to the advantages and disadvantages of using credit to make purchases and how to establish good credit.

5. Distribute a copy of Handout 6.1.1: Individual Answer Sheet to each student. Tell them to complete the handout individually and decide whether each of the 12 statements on the handout is true or false and circle their choice.

6. Divide the class into groups of two or three. Distribute one copy of each of the following handouts to each group:

    a. Handout 6.1.2: True Card

    b. Handout 6.1.3: False Card

    c. Handout 6.1.4: EXTRA CREDIT Card

    d. Handout 6.1.5: Group Score Sheet

7. Tell students that each team will use Handout 6.1.5 to determine a consensus answer in their group to each of the 12 statements.

8. Display Slide 4. Read the following rules to the students:

    a. Each group must choose a spokesperson. The spokesperson should read each statement on Handout 6.1.1.

b. Each member of the group must tell the spokesperson what she or he thinks the right responses are for each statement. Whenever members of the group disagree about the right response, the majority opinion will prevail.

c. The spokesperson must hold up Handout 6.1.2, or Handout 6.1.3, to indicate the group's decision for each statement. A "TRUE" represents a statement that the group believes is true, and a "FALSE" represents a statement that the group believes is false. Each member of the team must indicate the group's response to each statement by circling "True" or "False" on Handout 6.1.5.

d. Each group ultimately gets five points for each correct answer. Each group loses five points for each incorrect answer.

e. Each group may also choose to use a Handout 6.1.4 card, on any statement, for up to a total of two statements. In that case, if the group answers correctly, it receives 10 points; if the group answers incorrectly, it loses 10 points from its current score. Groups should use this tactic on items they are most confident about answering correctly. The spokesperson must hold up the "Extra Credit" sign if the group wants to use this option. Each team member must circle "Extra Credit" on Handout 6.1.5 if that is the group's decision.

f. Teams should turn Handout 6.1.5 upside down on their desk after they have reached a consensus on the 12 statements.

g. Correct answers to the 12 statements will be read by the teacher. A perfect score is 70 points. To earn this score, the students must answer all questions correctly and earn "Extra Credit" correctly on two questions. The team with the most points wins.

5. Display each statement, beginning on Slide 5. Tell students to wait for a signal from the teacher to display their answer. On the signal, the spokesperson should hold up the "TRUE" or "FALSE" sign to show the group's decision. The spokesperson should also hold up the "Extra Credit" sign if the group chose this tactic for this item. Make sure the groups respond to the statements simultaneously so that some groups don't wait to see what other groups decided.

6. Reveal and discuss the correct answer on Slide 6. Give the groups time to record their scores on Handout 6.1.5.

   Note: Students may wish to keep a running total by adding their scores along the side of the score sheet. You may also wish to keep a running point total for each group on the board so that groups can see how they are performing relative to others. This information helps when making decisions on when to use the Extra Credit" option.

7. Continue to reveal each statement and discuss each correct answer using Slides 7 to 28.

8. Display Slide 29. Ask the students to total up the final points for their groups; declare the winning team the "Credit Champs of Tomorrow!".

9. Distribute a copy of Handout 6.1.6: The Pros and Cons of Using Credit to each student.

10. Assign one question from the handout to each group and distribute a sheet of chart paper to each group for them to write their answer.

11. Review the suggestions from each group and ask students to take notes on Handout 6.1.6.

## Closure

9. Review the important points of the lesson by asking students:

   a. What is one advantage of using credit to make purchases? (*Credit can help with an expensive, unexpected, emergency and give you flexibility to pay it off over time.*)

   b. What is one disadvantage of using credit to make purchases? (*Using credit means you are borrowing money, and you must return it with interest. You may have to pay extra fees for taking out loans or having a credit card. Late fees may be charged if a payment is not made by the due date, making it more difficult to get out of debt. In general, a poor credit history and score will lower your chances are of getting a loan, including a credit card, and you will be more likely be offered a less attractive interest rate. Credit reports and scores can also be considered when you apply for a job, an insurance policy, or an apartment.*)

   c. What is one strategy that will help maintain good credit? (*Answers may include: Pay your bills, loans and other debt on time. If you have a credit card, charge only what you can afford to pay off immediately or very soon. Review your credit report for errors. Think carefully before you take out new credit cards or loans, since multiple credit inquiries can lower your credit score. Before you apply for credit, make sure you understand the terms of the loan.*)

## Assessment

10. Distribute Handout 6.1.7: Assessment to each student.

## Standards and Benchmarks

## National Standards for Personal Financial Education

**Standard 5: Credit**

Credit allows people to purchase and enjoy goods and services today, while agreeing to pay for them in the future, usually with interest. There are many choices for borrowing money, and lenders charge higher interest and fees for riskier loans or riskier borrowers. Lenders evaluate creditworthiness of a borrower based on the type of credit, past credit history, and expected ability to repay the loan in the future. Credit reports compile information on a person's credit history, and lenders use credit scores to assess a potential borrower's creditworthiness. A low credit score can result in a lender denying credit to someone they perceive as having a low level of creditworthiness. Common types of credit include credit cards, auto loans, home mortgage loans, and student loans. The cost of postsecondary education can be financed through a combination of grants, scholarships, work-study, savings, and federal or private student loans.

**Benchmarks: Grade 12**

7. Lenders assess credit- worthiness of potential borrowers by consulting credit reports compiled by credit bureaus .
8. A credit score is a numeric rating that assesses a person's credit risk based on information in their credit report .
9. Credit reports and credit scores may be requested and used by entities other than lenders .

## Handout 6.1.1: Individual Answers

Directions: Read each statement and decide if it is true or false. Circle the correct response.

1. Credit and debit cards have interest rates associated with them. **True or false (circle one)**

2. Your credit score helps determine whether or not you get credit, the amount you can borrow, and what interest rate you have to pay for the use of the money. **True or false (circle one)**

3. Using a credit card with a 30% interest rate, Bianca buys an $800 laptop. Each month she pays the $25 a month minimum payment the bank requires. She will have the laptop paid off in 3.5 years. **True or false (circle one)**

4. Debt should be avoided in all circumstances. **True or false (circle one)**

5. The following criteria are used in determining one's credit score: payment history, new credit inquiries, length of credit history, income, and types of credit. **True or false (circle one)**

6. Your credit report is a snapshot of your financial life and may be used by potential employers. **True or false (circle one)**

7. Using a credit card occasionally on impulse doesn't affect your budget. **True or false (circle one)**

8. Financial planners recommend that total debt should not exceed 20% of your yearly after-tax income and monthly payments should not exceed 10 – 15% of your monthly net income. **True or false (circle one)**

9. Having many credit cards will not affect a lender's willingness to lend money to me because I don't carry a balance on any of them. **True or false (circle one)**

10. A year ago, Bianca missed a payment on her laptop, but she caught up and paid the bill off. Her missed payment does not affect her credit score. **True or false (circle one)**

11. The indicator of how much credit will cost you for any loan or credit card purchase is the annual percentage rate. **True or false (circle one)**

12. Managing one's credit wisely will increase the choices a person has in the future related to the type of housing, transportation, leisure time activities, education options, and general standard of living available to you. **True or false (circle one)**

**Handout 6.1.2: True Card**

# TRUE

**Handout 6.1.3: False Cad**

# FALSE

**Handout 6.1.4: Extra Credit Card**

# EXTRA CREDIT

## Handout 6.1.5: Group Score Sheet

Directions: As a team, discuss and then circle TRUE OR FALSE for each statement. For each correct answer, you will receive five points. For each incorrect answer, you will lose five points. For any TWO statements, your team may decide to use the Extra Credit card and circle the Extra Credit option. If your response is correct, you will receive 10 points (instead of 5). If your response is incorrect, you will lose 10 points (instead of 5). Record your point in the blank space to the right.

1. True or False Score (-5 or +5) __________
   (circle one) (Extra Credit -10 or +10)
2. True or False Score (-5 or +5) __________
   (circle one) (Extra Credit -10 or +10)
3. True or False Score (-5 or +5) __________
   (circle one) (Extra Credit -10 or +10)
4. True or False Score (-5 or +5) __________
   (circle one) (Extra Credit -10 or +10)
5. True or False Score (-5 or +5) __________
   (circle one) (Extra Credit -10 or +10)
6. True or False Score (-5 or +5) __________
   (circle one) (Extra Credit -10 or +10)
7. True or False Score (-5 or +5) __________
   (circle one) (Extra Credit -10 or +10)
8. True or False Score (-5 or +5) __________
   (circle one) (Extra Credit -10 or +10)
9. True or False Score (-5 or +5) __________
   (circle one) (Extra Credit -10 or +10)
10. True or False Score (-5 or +5) __________
    (circle one) (Extra Credit -10 or +10)
11. True or False Score (-5 or +5) __________
    (circle one) (Extra Credit -10 or +10)
12. True or False Score (-5 or +5) __________
    (circle one) (Extra Credit -10 or +10)

## Handout 6.1.6: Pros and Cons of Credit

Directions: Work with your group to discuss the question you have been assigned by your teacher. Record the title of your question and the answers on the chart paper. When the teacher gives the signal, place the chart paper in a visible location in the classroom. Use the blank space below to take notes on the answers to each question as the class reviews the suggested answers.

a. Advantages of Using Credit. What are the advantages of using credit to make purchases?

b. Disadvantages of Using Credit. What are the disadvantages of using credit to make purchases?

c. Strategies to Maintain Good Credit. What strategies help to maintain good credit?

## Handout 6.1.7: Assessment

1. How can your credit score impact your financial situation?

   a. Consumers with high scores can borrow and those with low scores cannot.
   b. Consumers with low scores get lower interest rates on loans than those with high scores.
   c. It generally has no impact on your financial situation.
   d. It can determine whether you are approved for a loan and what the interest rate will be.

2. Which item does NOT play a role in calculating your credit score?

   a. Income
   b. Payment history
   c. Current debt
   d. Length of credit history

3. Which of these strategies represents the best way to use a credit card?

   a. Spending up to the full credit limit and paying off the bill in full every month on time.
   b. Not using more than 20% of the credit limit on your card and paying it off in full every month by the due date.
   c. Making the minimum payment required on your credit card every month by the due date.
   d. Putting the credit card in a drawer and never using it.