FINANCIAL LITERACY

LESSON 12-24 ▲ LEARNING TO USE MONEY IN 12TH GRADE

**LEARNING GOALS/OUTCOMES**

* Learn about personal debt and credit ratings.
* Explain personal credit rating and how it is determined.
* Manage access to personal financial information.
* Outline the process of making a credit application.
* Calculate the real cost of a product purchased on credit and paid back over time.

**MATERIALS NEEDED**

* **Student Handouts:**
* True Stories Cards
* Financial Credit Reports
* Journal Page

**CLASSROOM ACTIVITIES**

1. **Students examine typical credit problems**. Divide your students into four groups. Give each group one of the cards from the *True Stories Cards*. Give the groups a few minutes to read their card and brainstorm options. Ask them to brainstorm what the person on the card should do and write down a couple of different ideas   
     
   After a few minutes, call the groups back together and ask each group to quickly recount the problem on their card and the ideas they came up with to solve the problem. Don’t spend much time debating solutions. Instead, share with students that, if it is at all possible, it is better to avoid credit problems like those described on the cards rather than ending up having to fix them.
2. **Students explain personal credit rating and how it is determined.** Ask for a show of hands: how many students have heard of a credit rating? Because of the ubiquitous TV commercials, many students may raise their hands. Ask for volunteers to define what a credit rating is and what it means. Write their answers on the board. Distribute the *Financial Credit Reports* Handout and review the first page with students. Make sure they understand the FICO scores, the way a credit rating is determined, and the steps they can take to maintain a good credit rating. Have students turn to the second page and list personal recommendations for what they can do in each area to avoid trouble and keep their credit rating good.
3. **Students describe how to manage access to personal financial information.** Explain to students that there are two ways their credit rating can be lowered. One is by showing financial irresponsibility, such as not paying bills on time. The other is through fraud or identity theft, if someone gets access to their credit card number or other financial information. Ask students to call out ideas for how they can protect themselves from fraud or identity theft and write their answers on the board.   
     
   Students may suggest (or you can add) the following ideas: do not provide their banking or credit card information over the phone or in response to an e-mail unless they initiated the transaction; be careful about sharing their Social Security number; shred credit card offers; save bill stubs in a safe place; and check their credit card statements and bank statements regularly for any charges that they didn’t make. Make sure students understand that if they see any charges they didn’t make they should immediately contact their bank or credit card company. They will not be held responsible for charges they did not make, but must clear them up immediately before their credit is affected.
4. **Students outline the process of making a credit application.** Have students return to their small groups. Ask each group to imagine that they are applying for a credit card or a car loan. They should list the types of information they think the bank or credit card company will want from them. After a few minutes, have the groups share their information and write the categories they list on the board. Help them understand that a credit application will require: (1) personal identifying information, including full name, address, and date of birth; (2) employment information, including employer’s name, job title, length of time on the job, and salary; and (3) credit information, including bill-paying history and previous loans or credit cards. Ask students to describe the purpose of each of these types of information. Explain that for young people who do not have a prior credit record, their parents may be required to co-sign for a loan or credit card.
5. **Students calculate the real cost of a product purchased on credit and paid back over time.** Tell students that the average college student owes more than $3,000 on their credit card. If that credit card has a 17% interest rate and the college student pays the minimum payment each month, how long will it take to pay off the bill? Have students guess, then tell them that the correct answer is a total of 9 ½ years, and will include more than $2,000 in interest payments. Ask how they would feel about paying an extra $2,000 to pay back the groceries, books, or clothes they bought during college.
6. **Students reflect on surprise costs they could face toward keeping a high credit rating.** Remind students that no one wants to get into financial trouble. Usually, it’s a medical problem or a car problem or losing a job or some other emergency that starts someone on the path of not being able to pay their bills. Ask students to take a few minutes to use the *Journal Page* to answer the following questions:

* What are three surprise costs I might face over the next several years?
* What could I do to avoid or prepare for those costs?

**STUDENT PRODUCTS**

* **Completed *Financial Credit Reports*** **Handout**
* **Completed *Journal Page*** on preventative actions to deal with potential surprise costs in the future.

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LESSON 12-24 STUDENT HANDOUT

TRUE STORIES CARDS

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| **CAR PAYMENTS**  You have a job that requires a car. You managed to save $3,000 toward a car, but ended up spending $4,500. You got a loan for the remaining $1,500 and made a plan to pay it off. But then your car broke down on the highway and needed $600 in repairs. Between the repair bills and your car insurance ($1,000 a year) plus the cost of gas, you are not able to make your car payments. What should you do? |
| **STUDENT LOANS**  You got accepted to your dream college. But you didn’t get quite enough financial aid. Even after your job and everything your parents could do to help, you were short each year, so you went to the school’s financial aid office and took out student loans. They let you sign for yourself. Now you have graduated and you owe $30,000. The payments are so high that you cannot afford to rent an apartment, and the payments go on for 10 years. What should you do? |
| **CREDIT CARDS**  You never had quite enough money in college. Even though you tried to live cheaply, you always had more bills than money, so you ended up paying for a lot of things, including textbooks and groceries, on your credit card. Now your credit card is maxed out and you owe $5,000. You can only afford the minimum payment, but that will take you 10 years to pay it off. What should you do? |

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| **RENT**  You were excited to move out of your family’s house after high school and rent an apartment with a friend. But then your friend moved out to get married, and the roommate you found through an ad didn’t pay their share of the rent on time. Now the landlord is after you, because it’s your name on the lease, but you can’t afford all the rent… just your share. What should you do? |

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LESSON 12-24 STUDENT HANDOUT

FINANCIAL CREDIT REPORTS

Do you have a credit report? What does it say about you?

You may not know this, but you may already have a credit report. If you have a credit card or if you’ve ever borrowed money you already have a credit report… and keeping it positive is important. A credit report is a collection of facts about you that tells lenders whether you’re a good risk.

* Information about your credit history: every loan and credit card you’ve applied for or received (including the amount, how much you owe, and whether you pay on time), and
* Your three-digit FICO score: the FICO score (short for Fair Isaac Company, the firm that invented the score) tells lenders how good a risk you are. The FICO score can be between 300 and 850:
* 750: Excellent credit risk
* 720 – 750: Very good credit risk
* 660 – 720 : Acceptable credit risk
* 620 – 660: Uncertain credit risk
* 620: Risky

Three companies publish credit reports: Equifax, TransUnion, and Experian. You can review your credit report yourself to learn what it says about you and to correct any mistakes.

Your credit report can affect many different areas of your life. If you want to buy a car or a home, or get a credit card, your credit report will determine whether a bank or other lender will be willing to loan you money. It will also determine what interest rate you get. If your credit score is above 720, you will probably be able to get a lower interest rate, which will save you money every month.

Even if you already have a credit report, it’s probably fairly new. Here are a few tips to keep it strong:

* **Check your credit card and bank statements each month** and promptly report any incorrect information.
* **Don’t hold or apply for too many credit cards** (more than one or two). Lenders may be concerned about someone who has many credit cards. Even applying for a new card will show up on your credit report, so don’t apply for new cards just to get a free gift or promotion.
* **Pay all your bills on time.** If you have entered into an agreement to pay a bill, be sure you pay it on time, and always try to pay it in full. Your bill-paying history is part of your credit report.
* **Don’t run up large balances on your credit card.** Lenders will be concerned if they see you are carrying unpaid balances on your card.
* **Do apply for some credit** to get your credit history started. Lenders will also be concerned if you don’t have any credit history… so it’s a good idea to apply for a single credit card and then prove that you can use it wisely.

**WHAT CAN YOU DO TO KEEP YOUR CREDIT SCORE HIGH?**

List some ideas for yourself for the next several years of your life:

**Getting a credit card:**

**Buying a car:**

**Renting an apartment:**

**Paying for college:**

**Getting insurance:**

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LESSON 12-24 STUDENT HANDOUT

JOURNAL PAGE

**DATE:**

**Lesson 12-24 | *LEARNING TO USE MONEY IN 12TH GRADE***

**Q1:** What are three surprise costs I might face over the next several years?

***Q2:***What could I do to avoid or prepare for those costs?

***Answers:***