THE EDUCATION FUND
FOR EXCELLENCE IN MIAMI-DADE PUBLIC SCHOOLS

2019-2020

Ideas with IMPACT

idea packet

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TD Bank
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Credit Card or Cash: What's the actual Cost?

UNDERSTANDING CREDIT

Key concepts
Borrowing money (credit), credit ratings, evaluating credit card companies

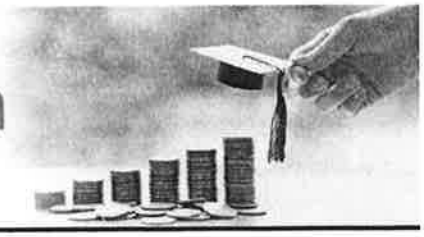
Summary
This lesson introduces how to obtain credit, and maintain good practices with credit, which will lead to establishing a good credit rating

Overview & Lesson Objectives
This lesson is intended for high school students in ninth through twelfth grades. The lesson teaches the concept of credit and allows students to explore it with real life situations. Each activity guides students in becoming aware of how credit is obtained, retained, and used in a responsible manner.

Students will be able to:
- Define credit
- Describe how to get credit
- Describe criteria for a good credit rating
- Recognize and explain why banks/institutions offer credit to their customers
- List perks offered by credit card companies
- Compare/contrast borrowing money with borrowing an object

Time Allocation:
15 – 20 Minute Prep
35 – 40 Minutes Engagement

Materials:
- 3-5 pictures of items students are eager to possess
- Copies of play money
- Book to represent the library analogy
- Copies of Venn Diagram (one per student)



Lesson Begins: Setting the Stage

Background Builder #1: Show students 3-5 colorful pictures of items that students of this age would like to possess. For example: Laptop, smart phone, concert tickets, etc. Or create a 3-5 item T-chart on the board. Give each student play money and have them write their name on a bill and have them place it under the item they want, thereby showing which item is most in demand.

State the Objective: tell the students what they will be able to do upon conclusion of the lesson.

"Today we are going to learn about credit which will help you in the future when you decide to make purchases and buy expensive items for which you do not have enough cash to buy or afford all at once. You should be able to define credit and describe how to get it. You should also be able to explain why banks offer credit and what incentives they may offer you to entice you to borrow."

The Lesson Procedure

Credit is when the bank agrees to buy a product for you and trusts that you will pay them back over time. Credit can be in the form of a credit card or a loan. A loan lets you buy something expensive that you really want such as a boat, a car, an education, or even a home.

In order to get credit you have to apply or ask for it. The bank will give you credit if you are approved. But first they have to run a credit report to find out how you've handled money in the past. There are other factors that go into getting approved for a loan.

You should also know that the bank will put a limit on how much you can spend/borrow to protect you from taking more than you're able to pay back. If the bank decides to offer you credit, you may have to pay a fee every year to use this service.

The bank lends you money because it gives them an opportunity to earn money. If you decide to take a long time paying back the money you borrow, you have to pay back extra which is called interest.

- **Credit companies sometimes offer you reward programs for borrowing money from them.** Some companies offer point programs that can be put towards airline tickets, shopping or cash back. (Note, in order to earn points in these programs, you have to spend money, so be careful how much you spend on a credit card as you will have to pay it back).

- **Getting credit protection is a great idea!** There are two types of protection you may want to consider. One involves protecting you in case your credit card is lost or stolen and someone else makes purchases with it. The other ensures your debt gets paid in case you become unable to work and generate an income.

Draw a Venn diagram on the board to compare a library with an institution providing credit. The analogy will give students something concrete to attach meaning to when learning this new concept.

"Let's compare borrowing a library book with borrowing money to help you understand credit."

Respond and record ideas generated for the diagram. Lead students if necessary to discover the following points as well as others that are shared between the bank and library.

- You can borrow a book/money because the librarian/bank trusts that you'll give it back.
- As long as you give it back within a week/month that's all you owe.
- If you keep the book/money longer, you have to pay the library/bank money for each day that it's kept past the due date.
- You may get good things in return for going to the library/bank such as a bookmark, a key chain, a lollipop, etc.
- Both entities want you to borrow.
- Both want to make money.
- Both want you to give the item back within a reasonable amount of time so that someone else can borrow the book or money.

Ask students to respond to the following question on a piece of paper. **"How do you suppose getting lunch might relate to getting credit?"** Allow 5-7 minutes for them to generate a response. Then ask students to share their responses; guide students to uncover the idea of getting lunch based on credit when you lose or forget your lunch money without having a packed lunch to eat.

Lesson Closes

Review the concept of credit including how it is obtained and why banks/institutions offer credit. Please select any number of activities from the section entitled "Additional Engagement Opportunities/Resources" in order to encourage students to work with, relate to, and retain the presented information.

Additional Engagement Opportunities / Resources

Pair and Share
Group students into pairs and ask each pair to exchange two or three new things learned during the day's lesson. Call on select pairs to share with the whole class what has been learned.

Sample Questions:

Give an example of something you might buy with credit.
Define credit.
Who gives credit?
How does a bank decide whether to give you credit?
Does credit cost anything? Explain.
What is a credit card limit?
Why should banks place a limit on credit?
When do you have to pay interest?
What can happen if the amount you owe to the bank is not paid back on time?
How can credit be used in your life now or in the future?
Why should you have credit protection?

Student generated questions should also be encouraged in place of or in addition to the ones listed above.

Misinformation: Quote information from the day's lesson purposely erroneous. Call on various students to restate the information correctly.

Samples:

- Borrowing Credit from a bank or institution is always free.
- In order to obtain credit, you must put down a deposit.
- With Rewards Programs, you have to purchase items or airline tickets

What's left out? Supply students with statements that have some information missing. This can be done verbally or it can be done on a board. Ask students to provide the missing information.

Samples:

- Credit can be in the form of a _____ or loan.
  - *Answer is "Credit Card"*
- You will have to pay the bank back extra money called _____ if you take a long time repaying your balance.
  - *Answer is "interest"*
- When applying for credit, the bank will have to pull a _____ on your history of handling money in the past.
  - *Answer is "credit report".*

Educational Standards

National Council of Teachers of Mathematics Principles and Standards for School Mathematics, 2000

Connections – (Students will) Recognize and use connections among mathematical ideas.
Connections – (Students will) Recognize and apply mathematics in contexts outside of mathematics.

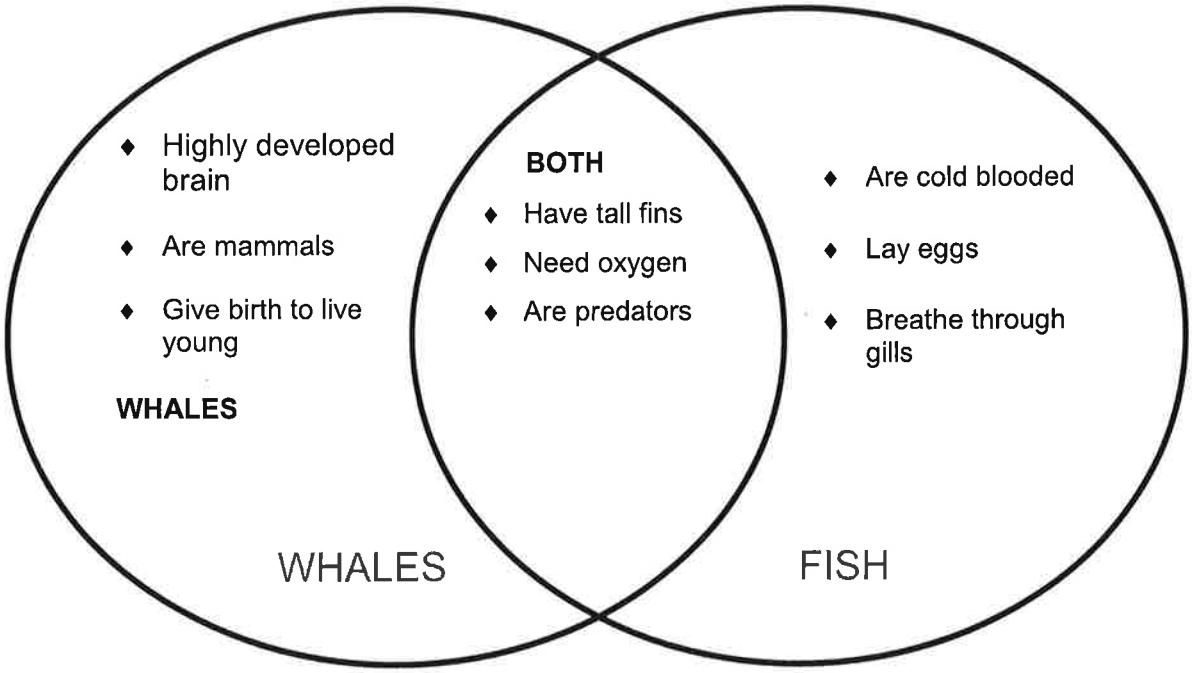
NJ Core Curriculum Content Standards for Personal Financial Literacy 2014:
Standard 9.1: 21st Century Life and Careers
9.1.C. Credit and Debt Management: 9.1.12.C.5

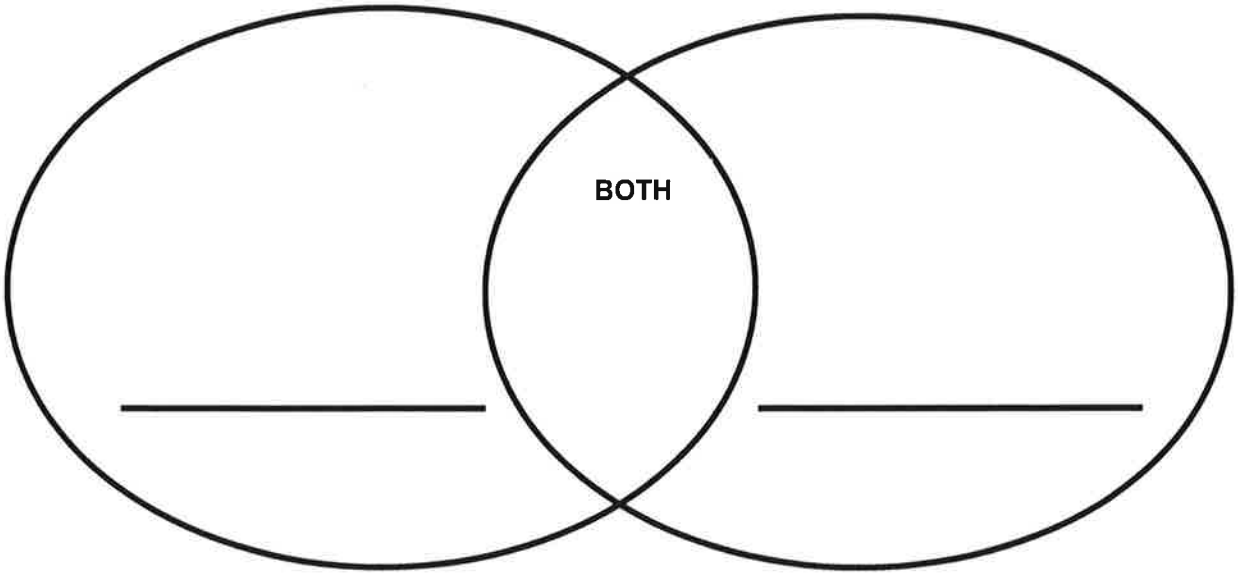
National Standards in K – 12 Personal Finance Education (from Jump$tart Coalition) 2017:
Financial Decision Making:
Standard 1, "Recognize the responsibilities associated with personal financial decisions."
Credit and Debt:
Standard 2, "Summarize a borrower's rights and responsibilities related to credit reports."

Venn Diagram

In a Venn diagram, two people, places, or things are compared and contrasted. Two overlapping circles are most often used to contain the comparisons, but other shapes may be used. The shared portion of both circles will list qualities that are held in common, while the opposite portions list characteristics unique to that subject.

A sample Venn diagram follows:





TD Bank **Financial Education**

Financial Freedom: Credit and Debt Management

NATALIA I. ALLEN, M.S.ED

Agenda

- Welcome
- Pre-assessment
- Understanding Credit
- Sample Case
- Post-assessment
- Discussion/Questions

Natalia Allen, M.S.Ed

- University of Miami: Master of Science in Education
- University of Missouri: Bachelor of Journalism; Bachelor of Art in Political Science
- From Springfield, Missouri
- Taught K-12 in public, private and charter schools
- Traveled to Namibia, South Africa, United Kingdom, Belgium, France, Costa Rica, Dominican Republic, Netherlands, Argentina, Uruguay, Ecuador, Jamaica

Objectives

- Determine what is credit and why it's important
- Differentiate between revolving debt and installment debt
- Understand how no credit or low credit can cost you more
- Learn strategies to effectively manage debt
- Prepare to Borrow
- Compare credit options

“Procrastination is like a credit card: it’s a lot of fun until you get the bill.”

CHRISTOPHER PARKER

Learn to use credit wisely and you’ll be able to use it to your advantage.

What is credit?

- The ability of a consumer to purchase goods or services before payment, based on the trust that there will be payment according to the terms and conditions previously agreed on between the consumer and the loaner.

Why is credit important?

- Large purchases
- Pay less
- Pay over time
- Able to secure a home, apartment, car etc.

Different Types of Debt

Installment Debt

- Installment debt is a loan taken out by a borrower for a set amount. The debt (loan) is repaid in installments set by the lender, usually monthly payments.
- Student Loans
- Car Loans
- Mortgages

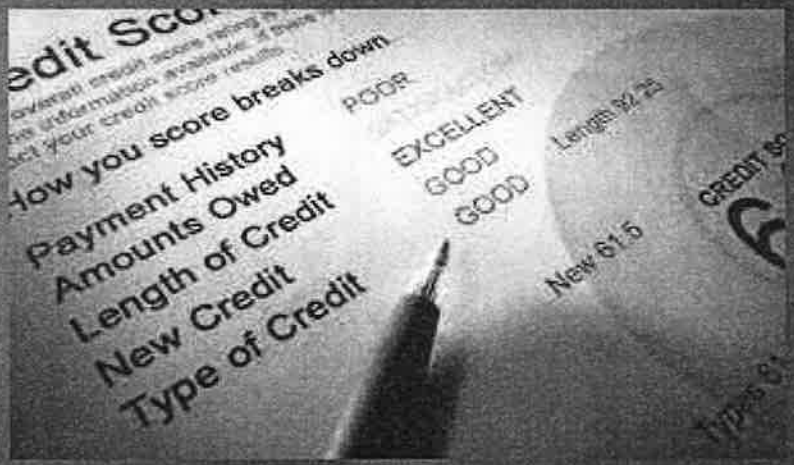
Revolving Debt

- Revolving debt is a line of credit. You do not need to reapply for more credit so long as you do not max out your credit limit.
- Credit cards

Calculating Your Credit Score

Credit (Payment) History

- Biggest component of your credit (FICO) score at 35%
- Payment history – on time or past due
- How many days past due, usually 30, 60, 90 or 120+ days late
- Track record of ability to manage credit



Let's compare!

- Two individuals are in the market to purchase a new home.
- Person A and Person B both want the same house!
- Lenders run their credit and let's see what they are offered!

Buying a Home

Person A
720 Credit Score

5% interest rate

Purchase price
$ 200,000

Down payment ($40K)
20%

Term (years)
30

Interest rate
5.000%

Person B
690 Credit Score

8.5% interest rate

Purchase price
$ 200,000

Down payment ($40K)
20%

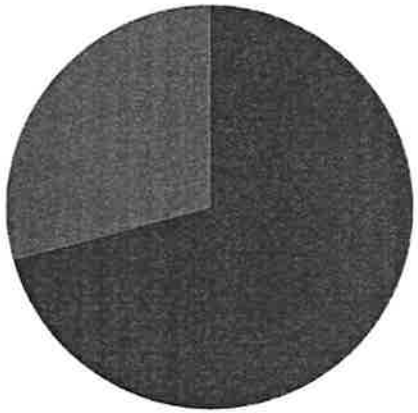
Term (years)
30

Interest rate
8.500%

Buying a home

5% interest rate

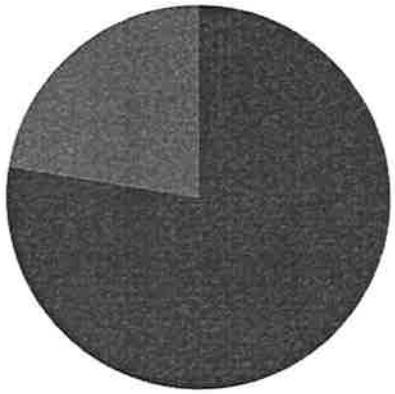
Your total payment will be ⊕
$1,213



Principal & Interest
Taxes & Insurance
PMI

8.5% interest rate

Your total payment will be ⊕
$1,584



Principal & Interest
Taxes & Insurance
PMI

Principal and Interest

Person A: 720 Credit Score, 5% interest rate

Your payments over time

Month	Monthly payment	Balance	Principal paid	Interest paid	Cumulative interest
▾ Year 1 (months 1-12)					
1	$859	$159,808	$192	$667	$667
2	$859	$159,615	$193	$666	$1,333
3	$859	$159,421	$194	$665	$1,998
4	$859	$159,226	$195	$664	$2,662
5	$859	$159,031	$195	$663	$3,325
6	$859	$158,834	$196	$663	$3,988
7	$859	$158,637	$197	$662	$4,650
8	$859	$158,439	$198	$661	$5,311

Person B: 690 Credit Score, 8.5% interest rate

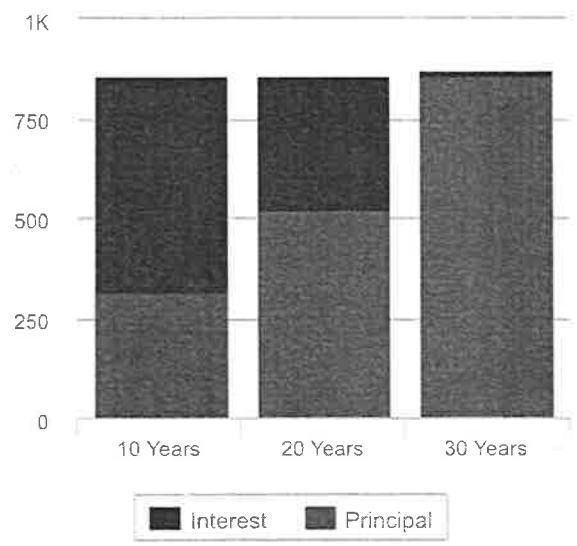
Your payments over time

Month	Monthly payment	Balance	Principal paid	Interest paid	Cumulative interest
▾ Year 1 (months 1-12)					
1	$1,230	$159,903	$97	$1,133	$1,133
2	$1,230	$159,805	$98	$1,133	$2,266
3	$1,230	$159,707	$98	$1,132	$3,398
4	$1,230	$159,608	$99	$1,131	$4,529
5	$1,230	$159,508	$100	$1,131	$5,660
6	$1,230	$159,408	$100	$1,130	$6,790
7	$1,230	$159,307	$101	$1,129	$7,919
8	$1,230	$159,205	$102	$1,128	$9,047

Payments over time

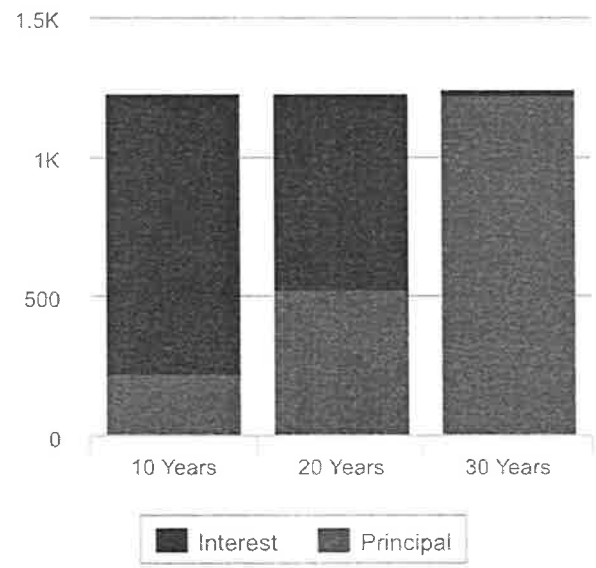
5% interest rate

Your total payment will be
$1,213



8.5% interest rate

Your total payment will be
$1,584



Credit Score

Excellent	Very Good	Good	Fair	Poor	Very Bad
800-850	750-799	700-749	650-699	600-649	300-599

Expect the lowest possible interest rates and best terms.

You will be eligible for most loans with good rates.

Only secured loans are given for people in this range.

Credit & Debt Management

SALT®

American Student Assistance®

Credit & Debt Management

Overview And Outcomes

It's just another day with yet another enticing credit card offer in your mailbox or inbox. Sounds great, right? This offer just may be the perfect fit for your credit situation—or just the opposite. In reality, credit can be a very useful part of your financial toolkit if you develop good habits. This course is all about keeping it real and learning how to approach credit decisions in a positive way to support your personal life choices.

Course Outcomes:

- ✓ Recognize that credit equals debt.
- ✓ Examine the components of a credit report.
- ✓ Identify different credit types to build your credit appropriately.
- ✓ Understand the credit application process.
- ✓ Develop a credit strategy that works for you.
- ✓ Analyze your credit resources.

Credit & Debt Management

Discussion Questions

1. Who's been your biggest influence when it comes to credit and/or debt and why?
2. How do you feel about your current credit situation?
3. You're at the checkout and the cashier asks you "Debit or Credit?" Which one do you answer, and why?
4. How long have credit cards been around? What was the first credit card?
5. Is there good debt and bad debt? What's the difference?
6. Why does credit matter? What impact can credit scores have on your life?
7. Have you ever pulled your credit report? If so, did anything stand out to you? If not, why not? (Do you know where you can get a free credit report?)
8. Have you ever checked your credit score? If so, were you pleasantly surprised, disappointed, or was it right where you thought it would be? (Do you know how you can get a free credit score?)
9. Have you ever applied for credit? If so, what kind and how was the process? Were there any bumps along the way
10. Have you taken any deliberate steps to try to improve your credit score? If so, what were they? If not, can you think of anything you might like to start doing to help your score?

Credit & Debt Management

Energizers

1. Have students break into pairs/groups. Have them identify three ways to build or reestablish credit. Share out with the class.

2. Select an article on saltmoney.org related to credit cards and credit scores (or have students select their own). After reviewing the article, have students share their number one takeaway about what they could be doing differently as it relates to their credit.

3. Use the Hit or Myth Cards. Have students identify why they think each statement is a "hit" (true) or a "myth" (false). Discuss the answers.

Credit & Debt Management

Activities

1. Credit Score Vs. Credit Report:

Have students create definitions for "credit score" and "credit report," and then share with the class.

Questions: What's the actual difference between credit scores and credit reports? Why do you need to know about the various elements of a credit score? Why should you look at your credit report—and what should you be looking for on your credit report? What should you do if you notice something wrong on your credit report?

Action: Have students pull their free credit report from annualcreditreport.com and review for issues. Have them follow up with the appropriate steps if necessary. (NOTE: If a person is in credit trouble, this may not be an appropriate action for them to take.)

2. Master Your Plastic:

Have students go to saltmoney.org/creditcardtool and complete the Master Your Plastic course. If a student doesn't have any personal debt, provide a sample debt scenario (e.g., $1800 in credit card debt).

Questions: What did you charge that you're still paying off, and was it worth it? What changes might you make going forward to pay off your debt? What might you do to keep yourself from getting in as much debt in the future?

Salt Action: Have students go to saltmoney.org and search for articles and videos related to credit and debt. Have them write a one-page reflection on how they feel about their current debt, and what steps they want to take in the future to keep up their current good habits and/ or change their future credit/debt direction.

SCORE UP! Use the Credit Score Worksheet and ask students to identify three steps they could take immediately to improve or maintain their credit score. Share best practices with class.

Questions: What are the five major credit score factors? What's the most important step you can take to ensure a positive credit score? Beyond making your payments on time, what else might you do to improve your credit score? Why should you even care about credit and/or your credit score?

Action: Have students check their credit score. There's a charge to do this through myfico.com, but a reasonable alternative score can be obtained for free at creditkarma.com.

Hit or Myth

SALT

Questions 1, 2, 3 - Print back-to-front with next page to create flash cards.

Question 1

If you have a high income, your credit rating will be better than someone who has low income.

Question 2

A consumer must give a company permission to review one's credit report.

Question 3

Closing credit card accounts will improve your credit score.

Hit or Myth

SALT

Answers 1, 2, 3

Answer 1: Myth - Why?

- Credit is based on a number of factors.
- FICO® scores are based on:
  - Payment history – 35%
  - How much you owe – 30%
  - Length of credit – 15%
  - Recent applications – 10%
  - Types of credit – 10%
- None of the factors include income. The only time lenders are going to look at income would be for a mortgage or car loan, and then they're looking at debt-to-income ratio.

Answer 2: Myth - Why?

- When a lender checks your credit, there are "hard" and "soft" inquiries.
- A hard inquiry occurs when applying for a credit card or loan.
- A soft inquiry occurs for pre-approved credit card offers that you did not request or periodic reviews by your existing credit card lenders.

Soft inquiries will not affect your credit score; however, you can opt out of receiving credit offers by calling 888-5-OPTOUT or going to the website www.optoutprescreen.com.

Answer 3: Myths - Why?

- Closing your accounts can hurt you in two ways:
  - Closing an account can make your credit history look younger than it is. Your credit scorefac- tors in the age of your oldest account and the average of all your accounts. So closing accounts, particularly older accounts, can ding your score.
  - Closing accounts reduces the total credit that you have available, making the debt utilization ratio soar. Remember that the FICO formula measures the gap between the credit you use and your total credit limits. The wider the gap, the better. If you suddenly lower the limit by shutting down accounts, the gap narrows—and that's a bad thing.

Hit or Myth

SALT

Questions 4, 5, 6 - Print back-to-front with next page to create flash cards.

Question 4

Once a debt is paid in full, it's removed from your credit report.

Question 5

You can't hurt your score by shopping around for the best rates for auto loans and mortgages.

Question 6

You have to use your credit in order to get a good credit score.

Hit or Myth

SALT

Answers 4, 5, 6

Answer 4: Myth - Why?

- Negative accounts will stay on your report for 7 years.
- Positive accounts will stay on your report for 7 or more years.

Answer 5: Hit - Why?

- Consumers usually want to shop around for auto loans and mortgages to get the best deal/rates. Consumers should not be penalized for this.
  - Older versions of FICO allow 14 days for rate shopping. (Multiple auto loan inquiries within 14 days will only be counted once.)
  - Newer versions of FICO use 45 days.
  - Other scoring formulas may use 30 days.
- Each lender chooses which version of the scoring formula it wants the credit reporting agency to use to calculate your score.

Answer 6: Myth - Why?

- The credit scoring formula is designed to judge how well you handle credit over time.
- If you have no credit, or you don't at least occasionally use the credit you have, the formula won't have enough information to make an assessment.

Hit or Myth

SALT

Questions 7, 8, 9 - Print back-to-front with next page to create flash cards.

Question 7

Adding a statement to your file can help your credit score if you have an unresolved dispute with a lender.

Question 8

The only place to get a free annual credit report is freecreditreport.com

Question 9

Payment history is the largest factor in determining your credit score.

Hit or Myth

SALT

Answers 7, 8, 9

Answer 7: Myth - Why?

A statement cannot impact your score. However, a statement will be on your credit history, and a potential lender can read that statement, which may influence their lending decision.

Answer 8: Myth - Why?

- Freecreditreport.com is not free. You need to sign up for a monthly service to get your free report.
- There are three major consumer reporting agencies:
  - Equifax (www.equifax.com)
  - Experian (www.experian.com)
  - TransUnion (www.transunion.com)
- The law entitles you to one free credit report from each agency every 12 months. You can get all three from www.annualcreditreport.com.

Answer 9: Hit - Why?

This is the most important strategy, because consistent, on-time payments will have the biggest impact on improving your credit. If you've paid your bills on time in the past, creditors will expect that you're more likely to keep doing so in the future. To improve the payment history portion of your score, get current and stay current on your bills. Payment history is the biggest component of your credit score.

Credit Score

SALT®

Your credit score is based on the following five major factors. For each factor, identify what this factor really means and the steps you could take to influence your score in that domain.

Credit Score Factor	What This Means	Action
Payment History (35%)		
Amounts Owed (30%)		
Length of Credit History (15%)		
New Credit (10%)		
Types of Credit Used (10%)		