

College Credit for Life

Sample Lesson Plan

Lesson Learning Objectives

- Understand the concept of credit
- Determine the risks and benefits of using credit cards
- Analyze the decision-making process when using credit cards
- Understand the importance of having good credit

I. Credit - so easy to get

★ Discussion Points...

How credit works

- When you use a credit card, the company that issued the card pays for your purchase.
- Later, you get a bill in the mail from your credit card company for the amount purchased.
- At that time, you can either pay the bill in full, or pay a lesser amount and wait until later to finish paying.

★ Exercise...

Review and discuss the details of a credit card application (including the fine print!).

★ Tips...

- ✓ Shop for a credit card, compare costs and features.
- ✓ Determine the best use of a credit card as a personal money management tool.
- ✓ Decide on the number and type of credit cards it is smart for you to have.

II. Credit - so easy to use.

★ Discussion Points...

1. How to use a credit card...

- When using a credit card, you are taking out a loan from the issuer of the card.
- If you pay the amount owed on a credit card in full each month, and pay it by the due date, there is no cost in interest or fees for using the card.
- If you are unable or unwilling to pay the credit card bill in full, you must pay interest (finance charge) on the unpaid balance.
- If you make no payment at all, or pay after the due date, you will incur a late fee.
- The finance charge and fees increase the cost of goods and services purchased with the card.

2. Values: needs versus wants...

3. The advantages and disadvantages of using credit cards...

Advantages of using credit cards

- Buy now, pay later - Ability to use an item while paying for it
- Convenient - No need to carry cash
- Responsible use of credit builds a positive credit history
- Quick source of funds in an emergency
- No extra charge if bill is paid in full each month

Disadvantages of using credit cards

- Must pay interest charges/card fees if bill not paid in full and on time
- Easy to overspend
- Card can be lost or stolen
- Credit card fraud/identity theft is possible

★ Exercise...

Read and interpret a credit card statement.

★ Tips...

- ✓ Pay credit card in full each month to avoid finance charges.
- ✓ Pay at least the minimum amount required by the due date to avoid a late fee.
- ✓ Stay under your credit limit to avoid an over-limit fee.
- ✓ Pre-paid cards keep you from spending money you don't have.

III. Credit - so hard to pay back.

★ Discussion Points...

- Understand the financial cost/impact of credit card interest and fees.
- Know the penalties for missed payments.
- Don't be misled into thinking small payments will be easy to handle.

★ Exercise...

Using a debt of \$1,000 at 18% APR, with no additional fees or charges added on, making the minimum monthly payment of 2% of balance, determine the following:

- How long it would take to become debt free. (12 years)
- What the total amount paid would be. (\$2,353)
- How much of the total went to interest. (\$1,353)

★ Tips...

- ✓ Never max-out your credit card.
- ✓ Use 30% or less of your available credit - this increases your credit score.
- ✓ Know the cost of paying with credit.

IV. Credit - your history is your future

★ Discussion...

Discuss how your credit history might impact your future.

- Employment
- Security Clearances
- Purchasing a home or renting an apartment
- Buying a car
- Other

★ Exercise...

Obtain copy of your credit report and review.

★ Tips...

- ✓ Use your credit card wisely to establish a credit record.
- ✓ Check your credit report once a year for free by going to www.annualcreditreport.com.

V. Definitions...

Annual Fee is a charge for use of a credit card levied each year that is billed directly to the customer's monthly statement.

APR (Annual percentage rate) is the interest percentage that is charged to borrow money. Although expressed as an annual rate, the charge is assessed monthly on any unpaid balance.

Billing Cycle is a time interval, the number of days between regular periodic billing of statements.

Credit is money that is lent to you and that you pay back over time, usually with interest. Credit allows you to buy now and pay later.

Credit Bureau is an agency that collects and stores information on the credit behavior of individual consumers and sells that information to qualified firms for permissible purposes and confidential use.

Credit cards are plastic cards issued by a bank, store, or other business allowing the holder of the card to purchase products or services. Each card has different costs and features.

Credit limit is the maximum amount of money that can be charged on a particular credit account.

Credit Scoring is a system allocating numeric values to consumer behavior, allowing development of formulas that generate a range of numbers used in making credit-granting decisions.