



Teacher-to-Teacher

Video Series
for Secondary Educators

TITLE: What is Credit?

PRIMARY SUBJECT AREAS: Economics

GRADE LEVELS: 9 - 12

OVERVIEW: Decisions about credit are among the most important choices that young people will make. This lesson explains what credit is, and its advantages and disadvantages. Types of loans, including home mortgages, car loans, college loans, personal loans, and credit card loans, will be discussed.

APPROXIMATE DURATION: one 50-minute class period

LOUISIANA CONTENT STANDARDS:

<http://www.doe.state.la.us/DOE/asps/home.asp?I=CONTENT>

Students develop an understanding of fundamental economic concepts as they apply to the interdependence and decision making of individuals, households, businesses, and governments in the United States and the world.

Economics

E-1A-H7 analyzing the roles of money and banking in an economic system

Free Enterprise

GLE 22 Analyze the role of banks in economic systems (e.g., increasing the money supply by making loans) (E-1A-H7)

TECHNOLOGY STRATEGIES:

<http://www.doe.state.la.us/DOE/LCET/curric/cats.asp>

INTERDISCIPLINARY CONNECTIONS:

Mathematics

OBJECTIVES:

1. The student will identify key terms, such as *credit*, *interest*, and *risk*.
2. The student will recognize the advantages and disadvantages of using credit.
3. The student will identify types of financial institutions.
4. The student will explain that most credit transactions are voluntary ones in which both sides gain.

MATERIALS:

Guest speaker, one who is a member of the Louisiana Young Bankers Association is recommended.

Young Bankers' Contact

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Brochures on credit and lending

www.ftc.gov

www.phil.frb.org/publicaffairs/pubs/pubindex.html#cb

<http://www.federalreserve.gov/pubs/brochure.htm>

www.themint.org

TECHNOLOGY CONNECTIONS:

Web Sites: www.ftc.gov

www.phil.frb.org/publicaffairs/pubs/pubindex.html#cb

<http://www.federalreserve.gov/pubs/brochure.htm>

www.themint.org

BACKGROUND INFORMATION:

No prior knowledge is necessary.

LESSON PROCEDURES:

Ask a banker to come speak to the class. I recommend someone from the Louisiana Young Bankers Association. The contact information is in the materials section above. Give the speaker a specific list of topics you would like to be covered. My suggested topics are listed below.

1. What is credit?

Using money that you do not have, promising to pay it back at a later date with an additional charge called interest

2. Advantages

- *use goods or a service today and pay for it later raise standard of living*

3. Disadvantages

- *interest*
- *loan to be repaid*
- *later sacrifices because of debt to be repaid now*

4. What lenders look for when approving loans

3 C's of Credit

- *Character*
- *Capacity*
- *Collateral*

5. State and Federal laws protecting consumers Truth in Lending Act, Fair Credit Reporting Act

- **Truth in Lending Act**

- *Creditors must disclose the cost of the credit in simple terms*
- *State the percentage cost of borrowing in terms of the annual percentage rate (APR)*
- *Protects against unauthorized use of credit cards*

- **Fair Credit Reporting Act**

- *Governs activities of credit bureaus and creditors*
- *Requires creditors to furnish accurate and complete information regarding your credit history*

6. Payday loans

- *Allows you to get cash until payday with no credit background check*
- *Legal*
- *Applicants sign agreement and writes postdated check*
- *APR could be 500% or higher*

7. Rent to own

- *Consumer agrees to rent for a short period (week, month)*
- *After specified period becomes owner*
- *Cost usually 2 to 5 times purchasing from department or appliance store*

ACCOMMODATIONS/MODIFICATIONS:

N/A

REPRODUCIBLE MATERIALS:

N/A

ASSESSMENT PROCEDURES:

1. Have students call a savings and loan, bank, credit union, and a finance company to find out what they charge as an annual percentage rate for the following:

- Car loan
- College loan
- Home mortgage
- Credit card

2. Have students also ask at the savings and loan, bank, and credit union what APR they pay for a passbook savings account, a one- and three-year certificate of deposit, and U. S. savings bonds.

EXPLORATION AND EXTENSION:

Fill out a loan application for a new car or at a finance company.

RESOURCES:

This lesson was developed after a series of workshops I conducted on Personal Financial Literacy. The President of the Louisiana Young Bankers Association was invited as a speaker. I compiled a list of the questions teachers attending the workshop had asked and the responses given. This information was then compiled.

The list of websites for free brochures put out by various government agencies is listed in the Technology Connections section. They are nice to give to the students.

REFLECTIONS:

N/A

CONTACT INFORMATION:

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