



## Jump\$Tart Washington Curriculum Unit Three Chapter Eleven: Cash and Credit

### Chapter Learning Objectives

1. Become familiar with different methods of paying for purchases.
2. Identify advantages and risks of using credit.
3. Learn some rules for using credit.
4. Learn financial terms.

### Episode 109 Synopsis

You'll learn about the power and pitfalls of credit, which is essentially using someone else's money temporarily (for a price). Meet a young entrepreneur who used credit to start a successful bath salts business and another who launched a successful design firm. And, as a cautionary tale, we talk to a young woman who had fun buying with credit until she found herself in bankruptcy.

### Jump\$Tart Standards Correlations

#### Financial Responsibility and Decision-Making

- Take responsibility for personal financial decisions.
- Make financial decisions by systematically considering alternatives and consequences.

#### Planning and Money Management

- Describe how to use different payment methods.

#### Credit and Debt

- Identify the costs and benefits of various types of credit.
- Explain the purpose of a credit record and identify borrowers' credit report rights.

### Washington State Standards Correlations

#### SOCIAL STUDIES

2. ECONOMICS - The student applies understanding of economic concepts and systems to analyze decision-making and the interactions between individuals, households, businesses, governments, and societies.

2.1 Understands that people have to make choices between wants and needs and evaluate the outcomes of those choices. (Grades 1-2 and 4-12)

## Lesson Prep and Supplies

### Getting Started

1. Familiarize yourself with this **BizKid\$** episode by watching it ahead of time. The episode will serve as a springboard to student learning, discussions, vocabulary exploration, and related hands-on activities.
2. Determine what equipment is required to show the episode in the classroom and request it if needed.
3. Choose an activity and gather supplies to learn about “Cash and Credit.”

### Equipment & Supplies for Preview and Screening

Time Needed: 45-60 minutes

#### *Items Needed For Class:*

TV/DVD Player  
DVD of Episode 109  
Projection System

#### *Items Needed for Each Student:*

Pencil or Pen  
Paper for taking notes  
Copy of BizTerms sheet for each student

## Activity One: Preview and Screening

### Introduction

Briefly explain that **BizKid\$** is a public television series that teaches kids about money and business. Mention that the bizkids.com website has lots of video clips, games, a blog, and other resources to help kids start businesses and learn about money.

### Episode Preview Activity

Before you show **BizKid\$** episode 109, “Cash and Credit,” lead your students in a brief activity.

- Distribute paper and pen or pencil to each student. Let students know to list any questions they have for later discussion.

Ask students the following discussion questions:

- What is the difference between paying for a purchase with cash or paying with credit?
- What are some advantages of paying with cash? With credit?
- How are checks and debit cards similar?

After the students discuss these questions as a group, tell them what they will see in episode 109 “Cash and Credit” as described below.

### About the Episode

You’ll learn about the power and pitfalls of credit, which is essentially using someone else’s money temporarily (for a price). Meet a young entrepreneur who used credit to start a successful bath salts business and another who launched a successful design firm. And, as a cautionary tale, we talk to a young woman who had fun buying with credit until she found herself in bankruptcy.

### Next Steps

Show the BizKid\$ episode. After the episode, ask students if they found answers to any of the questions they wrote on their sheets. Allow them to share and ask any questions that remain. Did they learn anything from the episode that will influence their behavior?

Distribute the list of BizTerms vocabulary to each student. Have them look up definitions. Papers are due in about 30 minutes. After 30 minutes have passed, give the students a copy of the definition sheet and they can check their own answers against the sheet.

## Activity Two: BizTerms Vocabulary and Definitions

### BizTerms Vocabulary

1. Benefit
2. Cash
3. Check
4. Credit
5. Credit bureau
6. Credit report
7. Debit card
8. Mortgage
9. Overspend
10. Repay

## **BizTerms Definitions**

1. A benefit is an advantage, privilege, right or financial reimbursement, such as a medical plan.
2. Cash is paper bills or metal coins that are used to pay for things.
3. A check is a printed or written promise to pay a specific amount of money. Checks usually include your signature, the name of a bank which will provide the money, and a bank account number that the money will come out of.
4. Credit is a loan of money from a financial institution which must be repaid by a certain date with interest.
5. A credit bureau is an agency which collects and sells information about how people use their credit, including if they make payments on time and how much credit they have available to them.
6. Your credit report is a document that summarizes how many loans and credit cards you have, what their limits are, and whether or not you pay on time.
7. A debit card is a bank card that looks like a credit card but it takes money directly from your checking account to pay for the entire purchase all at once.
8. A mortgage is a loan from a bank or credit union for the purpose of buying a house.
9. To overspend is the act of spending more money than you actually have.
10. To repay is to pay back something that you borrowed.

## Activity Three: Mortgage Math

### Activity Learning Objectives

- Understand how your use of cash and credit can affect your ability to get a mortgage loan.

### Supplies Needed

- Pen or pencil
- Student copies of “Mortgage Math” worksheet

### Directions

- Distribute a “Mortgage Math” worksheet and a pen or pencil to each student.
- Allow 15 to 30 minutes for students to read the problems and write down possible solutions.
- Then have a class discussion to determine if students chose the same or different solutions to each particular problem. There can be more than one way to solve a problem. Have students support their choices by explaining their thinking.

## Mortgage Math Worksheet

Each applicant below wants to borrow money to buy a \$200,000 home. The following information is important:

### Monthly "PITI"

Payment plus interest = \$931

Homeowner's Insurance = \$80

Taxes = \$105

Mortgage Insurance = \$120

1. What is the combined total of the four items above? \$ \_\_\_\_\_

	Savings Account Balance	Credit Score	Gross Monthly Income	Debt to Income Ratio – Front End	Minimum Monthly Payments on Credit Accounts and Loans	<b>PITI</b> plus Minimum Monthly Payments on Credit Accounts and Loans	Debt to Income Ratio – Back End
Jeff	\$1,000	580	\$2,700		\$180		
Jennifer	\$5,000	620	\$2,900		\$15		
Jessica	\$8,000	639	\$3,000		\$18		
Jerry	\$10,000	700	\$3,100		\$20		
Jasmine	\$12,000	751	\$3,300		\$25		

2. Applicants need to have 5% cash saved for a down payment. What is 5% of \$200,000? Who has saved enough for a down payment in their Savings Account?
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3. Loans will not be given to those with a credit score below 620. Of the loan applicants above, who is definitely not qualified for a mortgage loan at this time based on their credit score?
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4. If your credit score is above 750, you can get the best interest rate on your mortgage. Of the applicants above, does anyone qualify for the best interest rate?
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5. In order to truly afford the home, the applicant should earn at least 2.5 times the PITI each month. What is 2.5 times \$1,236? Who earns enough to qualify for this mortgage based on their income?

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6. The “Front End” debt to income ratio is the PITI (\$1,236) divided by the Gross Monthly Income. Calculate the front end ratio for each applicant and enter it into the table above. Applicants must have a front end ratio of 28% or lower in order to qualify for a mortgage. Who is qualified based on their front end ratio?

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7. The “Back End” debt to income ratio is the PITI (\$1,236) plus the Minimum Monthly Payments on Credit Accounts and Loans added together and then divided by the Gross Monthly income. First calculate the PITI plus the Minimum Monthly Payments and fill in that column above. Then calculate the Back End ratio. Applicants must have a back end ratio of 36% or lower in order to qualify for a mortgage. Who is qualified based on their back end ratio?

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8. Does Jeff qualify for this mortgage? Why or why not?

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9. Does Jennifer qualify for this mortgage? Why or why not?

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10. Does Jessica qualify for this mortgage? Why or why not?

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11. Does Jerry qualify for this mortgage? Why or why not?

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12. Does Jasmine qualify for this mortgage? Why or why not?

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13. Surprise! In addition to the down payment, applicants will need to have 2.5% of the home price set aside to pay for ‘closing costs.’ What is 2.5% of \$200,000? Do any of the applicants above have enough in savings to cover both the down payment and the closing costs?

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Have students discuss these ideas and share their answers with the class.

## Activity Four: Be Careful With Credit Cards

### Activity Learning Objectives

- Understand what you can do to improve your credit score.

### Supplies Needed

- Pencil with eraser
- Student copies of “Be Careful With Credit Cards” worksheet

### Directions

- Distribute a “Be Careful With Credit Cards” worksheet and a pen or pencil to each student.
- Allow 15 to 30 minutes for students to read the problems and write down possible solutions.
- Then have a class discussion to determine if students chose the same or different solutions to each particular problem. There can be more than one way to solve a problem. Have students support their choices by explaining their thinking.

## Be Careful With Credit Cards Worksheet

It is important to know how to use credit cards as a financial tool and how to improve your credit score.

	Credit Score	Minimum Payments	Credit Balance	Credit Limit	Balance to Limit Ratio	Late Payments in the last 6 months	How many years have these accounts been open?	Loans or Credit Cards?	New Accounts?
Shane	0	0	0	0	0%	0	0	None	None
Sara	580	100	5,000	6,000		5	1	6 Cards, 0 Loans	1
Sharon	600	80	4,000	8,000		3	2	5 Cards, 0 Loans	1
Steve	620	60	3,000	9,000		2	3	1 Card, 1 Loan	0
Stan	630	40	2,000	10,000		1	4	3 Cards, 1 Loan	1
Susan	640	20	1,000	12,000	8.3%	0	5	2 Cards, 1 Loan	0

1. For each person in the table above, calculate the "Balance to Limit Ratio" by taking the Credit Balance and dividing it by the Credit Limit for that person. Fill in the column of the table above.

2. One bank will give you a personal loan if your Credit Score is above 620 and your Balance to Limit Ratio is 70% or less. Which of the people in the table above would qualify for this loan?

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3. Another bank will give a mortgage loan to people with credit scores that are 620 or better and they have a Balance to Limit Ratio that is under 40%. Which of the people in the table above would qualify?

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4. A good rule is to pay down your Credit Balance until it is 20% or less of your Credit Limit. Which of the people above, if any, are following this rule?

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5. Another good rule is to have at least two open credit cards, but not more than three open credit cards. Who is following this rule?

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6. To improve your credit score, you should have no late payments in the last six months. Which of the people in the table above need to do this to increase their credit score?

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7. The longer your account has been open, the more history you show on your credit report. Who has the longest credit history above? Who has the shortest credit history?

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8. Your mix of credit cards and loans is important to your credit score. Credit cards are 'revolving' accounts; they can go up and down. Loans are one-time expenses that you pay off month by month. Both types of accounts show how you handle your money. An ideal mix is to have at least one loan and not more than 3 credit cards. Which of the people in the table above is following this rule?

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9. If you had some problems in the past, but your 'new' credit account shows you have become more responsible, that counts too. Which of the people in the table above has a 'new' credit account that can show how they have improved in handling their money?

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Have students discuss the concept of credit scores and share their answers with the class.

## Resources

BusinessDictionary.com	A reliable source for the definition and explanation of financial terms.
MyMoney.gov	The U.S. government website dedicated to teaching Americans the basics of financial education.
National Financial Educators Council (NFEC)	NFEC and the NFEC EduNation Campaign provides complementary personal finance materials for parents, educators and concerned citizens interested in teaching children about money. <a href="http://www.financialeducatorsCouncil.org">http://www.financialeducatorsCouncil.org</a>
360 Degrees of Financial Literacy	This is a free program to help Americans understand their personal finances through every stage of life. It is sponsored by the American Institute of Certified Public Accountants. <a href="http://www.360financialliteracy.org">http://www.360financialliteracy.org</a>
Banking and Financial Systems	This is a textbook published by Goodheart-Wilcox. The ISBN number is 978-1-60525-778-5. <a href="http://www.g-w.com">http://www.g-w.com</a>
Voluntary National Content Standards in Economic Education	This book is the 2 <sup>nd</sup> edition from the Council for Economic Education. The ISBN number is 978-1-56183-733-5. <a href="http://www.councilforeconed.org">http://www.councilforeconed.org</a>
Improving Financial Literacy: What Schools and Parents Can and Cannot Do	This book is published by Jump\$tart Coalition for Personal Financial Literacy. The ISBN number is 0-9666010-1-7. <a href="http://www.jumpstart.org">http://www.jumpstart.org</a>