Using Your Credit - Crazy or Compelling?

EPISODE #115

ACTIVITIES & LESSONS

LESSON LEVEL

Grades 4-6

KEY TOPICS

- Entrepreneurship
- Credit
- Interest

LEARNING OBJECTIVES

1. Learn about borrowing money.
2. Understand your credit report and its impact on your life.
3. Understand how to calculate interest on your loans.
4. Learn financial terms.

EPISODE SYNOPSIS

Don't live on borrowed time. Join the Biz Kid$ and you'll see the true cost of purchasing with credit. You'll also have an unsettling look at credit scores and the increasing number of people and places (employers, insurers, colleges, etc.) who are using these scores to make major decisions that could affect your future. Meet entrepreneurs who have successfully navigated credit pitfalls.

NATIONAL STANDARDS CORRELATIONS

Aligned to *National Financial Literacy Standards* from the **Jump$tart Coalition for Personal Financial Literacy.**

Financial Responsibility and Decision Making

Standard 1: Take responsibility for personal financial decisions.

Standard 4: Make financial decisions by systematically considering alternatives and consequences.

Planning and Money Management

Standard 3: Describe how to use different payment methods.

Standard 4: Apply consumer skills to purchase decisions.

Credit and Debt

Standard 1: Identify the costs and benefits of various types of credit.

Standard 2: Explain the purpose of a credit record and identify borrowers' credit report rights.

Aligned to *Voluntary National Content Standards in Economics* from the **Council for Economic Education.**

Standard 2: Decision Making

Standard 14: Entrepreneurship

Aligned to **Common Core State Standards Initiative's** standards for *Literacy in History/Social Studies, Science and Technical Subjects.*

Standard 1: Read closely to determine what the text says explicitly and to make logical inferences from it; cite specific textual evidence when writing or speaking to support conclusions drawn from the text.

Standard 4: Interpret words and phrases as they are used in a text, including determining technical, connotative, and figurative meanings, and analyze how specific word choices shape meaning or tone.

Standard 7: Integrate and evaluate content presented in diverse formats and media, including visually and quantitatively, as well as in words.

CONTENTS

LESSON PREP & SCREENING

Getting Started

Familiarize yourself with the episode ahead of time. It will serve as a springboard for student learning, discussions, vocabulary exploration, and hands-on activities. Determine what equipment is required to show the episode in your classroom and request it if needed. Choose an activity (each one takes between 45-60 minutes), and gather supplies. Students will need a pen or pencil and copies of the activity worksheets. Have fun!

Screening

Introduce the series and the episode. Explain that Biz Kid$ 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. Prior to playing the episode, lead your students in a discussion with the preview questions on this page.

About the Episode

Don't live on borrowed time. Join the Biz Kid$ and you'll see the true cost of purchasing with credit. You'll also have an unsettling look at credit scores and the increasing number of people and places (employers, insurers, colleges, etc.) who are using these scores to make major decisions that could affect your future. Meet entrepreneurs who have successfully navigated credit pitfalls.

Episode Preview Questions

Before you show this Biz Kid$ episode, lead your students in a brief discussion of the following questions:

- Have you ever really wanted to buy something but didn't have enough money saved to buy it?
- What could you do if there was something you really needed, but you didn't have the money for it?
- How would you define credit?

Next Steps

Show this episode. After the episode, read the Summary and Conclusion to the class.

Summary and Conclusion

When a person uses credit, they are borrowing money from a financial institution, such as a credit union or bank. Businesses lend money to people who they trust will repay the loan by a specified date. There are consequences if the money is not repaid in full by the specified date, such as interest and late fees. It is easier and much better to establish good credit. Using credit can be a positive or negative experience.

Family Connection

Distribute a copy of the Family Activity Sheet to each student to share what they've learned with their families.

FAMILY ACTIVITY SHEET

Episode Synopsis

Don't live on borrowed time. Join the Biz Kid$ and you'll see the true cost of purchasing with credit. You'll also have an unsettling look at credit scores and the increasing number of people and places (employers, insurers, colleges, etc.) who are using these scores to make major decisions that could affect your future. Meet entrepreneurs who have successfully navigated credit pitfalls.

Activity Suggestions

With your child, discuss how your family uses credit. Let your child read a copy of your own credit report, so they understand what information is provided and how it is organized and scored. If you need a copy of your credit report, you can order one free copy per year from each of the three credit bureaus: TransUnion, Experian, and Equifax.

Your child will benefit from learning about poor credit choices that can negatively affect credit scores. Have a family movie night and watch the humorous movie *Confessions of a Shopaholic* (2009) - Rated PG, to encourage a discussion about the pros and cons of using credit. Older teens and young adults may prefer a documentary such as *In Debt We Trust* (2006) or *Maxed Out* (2006). These documentaries are unrated, so be sure to read a summary or review before you decide to show them to your children.

Activity #1:

BIZ TERM$

WORKSHEET FOR STUDENTS

Biz Term$

- Borrower
- Consumer
- Credit
- Credit history
- Credit score
- Financial institutions
- Interest
- Interest rate
- Lending institution
- Line of credit

Directions

With students, read aloud the Biz Term$ and each question. Call on volunteers for answers, and have them explain why they chose the term they believe to be correct.

Biz Term$ Episode Review

1. The amount of money you can borrow is your __________ limit.

2. A bank or credit union are types of __________ and they also may be a __________.

3. A fee charged for borrowing money is called __________.

4. A person who gets a loan is a __________.

5. Someone who uses goods and services is a __________.

6. A number assigned to a person by a credit bureau is a __________.

7. A record of a person's repayment of financial obligations is their __________.

CURRICULUM CONNECTIONS

Language Arts

- Have students construct sentences, write a paragraph, or create a story, skit, or dialog using Biz Term$.
- Have students create a class Dictionary of Financial Terms using Biz Term$.
- Have students start their own Journal of Personal Financial Education and continue to add to it.

History/Social Studies

- Using the internet, visit the website (http://www.encyclopediaofcredit.com/history). When were loans first made? How were credit bills important during the Middle Ages? What was a "sea loan?" What was a "fair letter?"

Mathematics

- You borrow $10,000 to buy a car, and agree to pay it back over 5 years, at an interest rate of 6%. How much money will you end up paying back on this loan?

Economics

- Name the three major credit reporting agencies. What is their purpose? What are the differences between them? Write to one or more credit agencies and get a free copy of your own credit report (you are allowed one free copy per calendar year).

Optional Vocabulary Extensions

Make Art!

Ask students to create personal illustrated glossaries using sketches or cartoons to visually represent the meaning of each Biz Term.

Make It Personal!

Provide students with dictionaries and ask students to re-write formal definitions for each Biz Term in their own words to demonstrate comprehension.

Activity #2:

INTEREST AND PAYMENTS

WORKSHEET FOR STUDENTS

Directions

You are planning to buy a car. Fill in the chart below, so you can take it with you when you go shopping.

Example: If the car's price is $5,000 then a down payment of 5% would be .05 * 5,000 = $250 down payment (money you have saved up and can pay them right now).

The amount you would need to borrow would be $5,000-$250 = $4,750 needed in a loan. For this example, use a 5% interest rate, and plan to pay off the loan within one year.

If you are borrowing $4,750 and the interest rate is 5% then you would owe $4,750 plus 5% of $4,750 at the end of one year. 5% of $4,750 is $237.50. $4,750 plus $237.50 is $4,987.50 that you would pay in total by the end of the year to the lender.

To figure out your monthly payment, divide the total amount of the one-year loan ($4,987.50) by 12 months. $4,987.50 / 12 = $415.625 (you would round up to $415.63 for your loan payments).

If the payment is too high, you can lower it by getting a lower interest rate, or putting in a larger down payment. Those methods will not cost more money in the long run. If you're really stuck, you could extend the loan to two years, but you will pay more in interest the longer you stretch out the loan.

Down payment	Amount to borrow	5% Interest for 1 year	Loan plus Interest	Monthly Payments
5% = $250	$4,750	$237.50	$4,987.50	$415.63
10% =				
15% =				
20% =				
25% =				
50% =				
75% =				
100% = $5,000	$0	$0	$0	$0

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

Activity #3:

CREDITZILLA!

WORKSHEET FOR STUDENTS

Directions

People get caught in debt and it is hard to get out. If you know what the real story is behind the numbers, you are less likely to be trapped by too much debt. Think about the situations below, and discuss them in class.

1. There is a letter in the mail that says you are "pre-approved" for a credit card at 18% annual interest rate. If you spent $1,000 on the card, and paid it off after one year, how much would you pay in interest? Is this a good deal? Why or why not?

____

____

____

2. George is going to buy a house. He is borrowing $100,000. The lender says they can offer him a fixed-rate mortgage (the payments stay the same every month) or an adjustable-rate mortgage (the payments might go up or down depending on the economy). What is the best choice and why?

____

____

____

3. Allison wants to buy a car. She has $3,000 saved up, and the car will cost $5,000. She needs a loan for the other $2,000. The car dealer says she can have a 1 year loan or a 2 year loan. What is the best choice and why?

____

____

____

4. You see a pair of jeans on sale for 10% off the regular price of $50. You have a credit card in your pocket with a 13% interest rate. If you buy the jeans today with the credit card, and pay them off after one year, are you paying more or less than the regular $50 price for them?

____

____

____

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

BIZ TERMS DEFINITIONS

- *Borrower:* A person who asks to use something that they do not own, with the promise to give it back later.

- *Consumer:* A person who buys goods or services.

- *Credit:* A loan of money from a financial institution which must be repaid by a certain date with interest.

- *Credit history:* A record of how you have repaid your credit obligations.

- *Credit score:* A rating used by credit reporting companies to help lenders decide whether to extend credit to a borrower.

- *Financial institutions:* Organizations or businesses that provide services related to money.

- *Interest:* A fee charged for borrowing money.

- *Interest rate:* A percentage, usually on an annual basis, that must be paid back in addition to the original amount borrowed.

- *Lending institution:* An organization or business that loans money to borrowers.

- *Line of credit:* An amount of money a borrower is able to use, as in the amount of credit available on a credit card.

fun financial literacy on public tv and at www.bizkids.com

Produced by: *Biz Kid$* LLP

Funded by:

AMERICA'S CREDIT UNIONS™

lovemycreditunion.org
Investing in America.

National Credit Union Foundation

Co-Produced by:

WXXI
ROCHESTER, NY

Distributed by:

APT
American Public Television