The Good Life: Your Money, Your Credit

SUBMITTED BY: Lee Jackson

SUBJECT(S): Personal Finance

GRADE LEVEL(S): 9, 10, 11, 12

≡ OVERVIEW:

This lesson introduces students to general financial literacy by learning about credit and borrowing. It is part of a series of "The Good Life" lessons, which all seek to help students identify strategies for using credit wisely, saving, spending and donating.

– After this lesson, students will be able to discern different types of credit.

– After this lesson, students will be able to apply the 20/10 rule to real-world situations

≡ NBEA STANDARD(S):

- Personal Finance, I. Personal Decision Making

≡ RELATED ARTICLES:

- "Zina Kumok: 'Getting My First Credit Card Was So Exciting'"
- "Olivia Mitchell on Why Young Consumers Should Just Say No to Spending"

NBEA Standard(s):

IV. Personal Management Skills
Achievement Standard: Develop personal management skills to function effectively and efficiently in a business environment.

Common Core Standard(s):

Integrate and evaluate multiple sources of information presented in different media or formats (e.g., visually, quantitatively) as well as in words in order to address a question or solve a problem.

Other Resources/Materials:

- Bulletin board or chart paper
- Markers
- Optional: YouTube clip – "Dave Ramsey on Credit Cards" http://www.youtube.com/watch?v=dyDswUgLgzE&feature=related *(3 mins)*
- YouTube clip – "Dave Ramsey: Normal is Broke" http://www.youtube.com/watch?v=XQCRw9lp60Y&feature=related *(1.5 mins)*

Tying It all Together:

Ask students: What does credit mean to you? What does having "good credit" mean? What types of things are okay to have on credit?

Explain to students that all debts or bills are loans — or an expectation of payment.

- **The 20/10 rule:** States that consumers should 1) never borrow more than 20% of yearly net income, and 2) ensure that monthly payments are less than 10% of monthly net income.
- **Single-payment credit:** Any loan that must be paid off in one future payment. Examples: doctor's co-pay, cell phone bills, cable bills.
- **Revolving credit:** Any loan in which borrowers may borrow up to a set limit. Minimum payments are due regularly. Examples: store credit cards, credit cards.
- **Installment credit:** Any loan paid in two or more regular payments in a set amount. Examples: mortgages/rent, car and furniture payments.

Activity: Have students work in pairs to discuss the different types of credit and the 20/10 rule. See questions below.

1. If your net monthly income is $1,400, how much is your annual income? Show how you found your answer.

2. Based on the figure above, how much can you safely borrow per year using the 20/10 rule? Show how you got your answer.

3. You are at the checkout counter of your favorite store, and the clerk asks if you would like to save 20% today by opening a store credit card. What might you answer?

What factors influence your decision?

What type of credit is this?

4. Your family has Horizon health insurance, but each time you visit the doctor's office you are required to pay an additional $25 following your visit.

Is this a type of credit? If so, what type of credit is this? How do you know?

5. Is it possible to use credit wisely? Do you feel that credit is good or bad? State the reason for your answer.

Close: How does credit and borrowing apply to a monthly budget? What are some alternatives to credit? Have students discuss it.

Practice Outside of the Classroom: Have students think about the common types of credit that occur in their homes.

What Worked and What I Would Do Differently: Students needed lots of examples of the different types of credit — the more tangible the better. Most did not have any experience with debt, but were familiar with credit cards. The paired work seemed to go well.

Sources:

- YouTube.com
- Dictionary.com