

Understanding Credit

Notes:

Learner Outcomes

Outcome #1: Participants will be able to explain why using a credit card is a form of borrowing.

Outcome #2: Participants will be able to identify the types of credit adults commonly use.

Outcome #3: Participants will be able to name how many credit cards the average American credit card holder has.

Target Audience

Parents of elementary-age kids (grades 3 to 6)

Materials

1. Flip chart and markers or a dry-erase board and dry-erase markers
2. Name tags (downloaded for free from the Bank It Web site), one for each participant
3. A pen or pencil for each participant
4. A kitchen timer, clock, or watch to track time
5. Evaluation Pretest #1-BO-PE for each participant
6. Evaluation Posttest #1-BO-PE for each participant
7. Notes #1-BO-PE for each participant
8. Optional: PowerPoint Presentation PDF #1-BO-PE
9. Optional: Handout #1-BO-PE for each participant

Timing

1 hour

Want more background and training tips? See the free, downloadable Bank It Elementary Quick Start Leader's Guide at www.bankit.com.

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1. Welcome and Overview (5 minutes)

Arrive early. We highly recommend that you use the optional PowerPoint Presentation PDF and the optional handout. Both will greatly enhance your session. If you're using the PowerPoint Presentation PDF, show the "Welcome to Bank It" slide as participants enter the room.

Greet participants individually and learn their names as they arrive. Have them create a name tag with their first name only.

Give participants a copy of the Notes #1-BO-PE and either a pen or pencil. Encourage them to take notes during your session. Have them sit in clusters of about four people. If possible, have them sit at tables. Then welcome the whole group to the session.

Say: Welcome to Bank It. Bank It delivers real-world financial topics and tools for kids and parents that make it easier to understand, talk about, and manage money. Bank It was developed by Capital One and Search Institute. I'm glad each one of you is here.

Today we will focus on understanding credit, and we plan on meeting three goals. One: By the end of this session, you will be able to explain why using a credit card is a form of borrowing. Two: You will be able to identify the types of credit adults commonly use. Three: You will be able to name how many credit cards the average American credit card holder has.

If this session is not the first session you're presenting to this group, consider briefly discussing the challenge you may have given participants at the end of your previous session.

2. Pretest and Activity (15 minutes)

Say: The first activity we'll do is a short pretest. The pretest has only six questions, and I don't want you to worry about how well you'll do on it. We'll take this exact test again at the end of our session after we have learned about the money concepts on the pretest.

What matters most is how much you learn and how well you do on the test at the end of our session, not on how well you do on this test.

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Distribute the Evaluation Pretest #1-BO-PE to participants. Give them time to complete the pretest. Then collect the pretests when they have finished. The Evaluation Key #1-BO-PE has all the answers for your information.

Ask: *What is the definition of credit?* Give participants time to respond. Don't be surprised if participants don't fully understand what credit is. On a flip chart, write: Credit is the ability to borrow money that must be paid back at a later date. Explain this concept to the group.

Ask: *What is the difference between buying with cash and buying with credit?* Give participants time to respond.

After participants have given their ideas, write these points on a flip chart and talk about them. 1. With cash, you pay the amount now. With credit, you promise to pay the amount later. 2. With cash, you know if you have enough money to pay for the entire purchase. 3. If you do not pay your credit card bill on time, you will be charged a late fee.

Ask: *What do you see adults use the most: credit or cash?* Give participants time to respond. Ask: *When do you usually see adults use cash?* Give participants time to respond. Ask: *When do you usually see adults use credit?* Give participants time to respond.

Once participants understand the difference between cash and credit, say that you're going to do a quick activity called "Good or Not So Good?" Explain that you're going to name a situation. If participants have had a good experience with the situation, they are to give two thumbs up. If they've had a bad or not-so-good experience with the situation, they are to give two thumbs down.

Say: *Your child has borrowed money from you. What was your experience with your child paying you back?* Give participants time to signal whether they've had a good experience by signaling two thumbs up or a not-so-good experience with two thumbs down.

Then say other scenarios, such as these, one at a time, giving time for participants to signal thumbs up or thumbs down: *What's your experience with borrowing money in the form of a loan? What's your experience with a friend borrowing an item from you and returning it in good condition?*

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What's your experience in lending an item to your child? What's your experience with paying off money you owe little by little over time? What's your experience with paying your credit card bills?

After you've finished the activity, debrief it. Then say: *We can have better and better experiences with borrowing and lending when we learn about how to borrow and lend money well.*

3. Present (15 minutes)

Say: *Remember that when we're talking about borrowing and lending, we're talking about credit. Ask: What is an advantage to using credit well? Give participants time to respond.*

Write these two points on a flip chart under "Advantages of using credit well":
 1. You can build a positive credit history. 2. You can improve your credit score.

Say: *The way you use credit will affect your 1. Credit history and 2. Your credit score. The way your child borrows and lends money now will affect the way your child will use credit when he or she becomes an adult.*

Say: *You create a credit history whenever you borrow money. The way you pay the money back is very important. If you pay the money back on time and in a regular way over time, your credit history will be better.*

On a flip chart write "\$20." Say: *Let's say your child asks to borrow \$20. You agree and ask your child to pay you back as soon as your child can. Right there, we have a problem. What's the problem? Give participants time to respond. The answer you're looking for is: What does "as soon as you can" mean?*

Explain that when adults borrow money, they are given a timeline for paying back the money they borrow. For example: Usually adults need to make monthly payments for credit card purchases and for loans.

Say: *For kids who get a weekly allowance or some other regular payment, it's usually a good idea for your child to learn to pay back the money your child borrows on a weekly basis. So let's do this again. Your child borrowed \$20 from you. How much do you think your child should pay back each week?*

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Give participants time to respond. Their answers will vary depending on how much money their kids get. Choose one of the examples given and write it out on a flip chart. For example, if someone says a child can pay back \$2 a week, ask how many weeks it will take the child to pay back the entire \$20. (The answer is 10 weeks.)

Go back to the flip chart where you wrote “Advantages of using credit well”:
1. You can build a positive credit history. 2. You can improve your credit score. Explain that when you use credit well, your credit history improves and your credit score goes up and becomes a higher number.

Explain that when you use credit poorly, your credit history shows that you’re not reliable to lend money to and your credit score goes down and becomes a lower number.

Ask: *If you’ve borrowed money in the form of a loan two times and paid back both loans on a regular basis and on time, what would that do to your credit history?* (The answer is, it would improve.)

Ask: *What would that do to your credit score?* (The answer is: It would go up. It would be a higher number.)

Ask: *If you’ve borrowed money in the form of a loan two times and you paid back one loan on time but then didn’t pay back the other loan on time, what would that do to your credit history?* (The answer is, it would show the lender you’re not reliable and hurt your credit history.)

Ask: *What would that do to your credit score?* (The answer is: It would go down. It would be a lower number.)

If you plan to distribute the optional handout, use it at this time. The Handout Key #1-BO-PE has all the correct answers for your information.

Say: *Many adults do not know their credit score.¹ According to research, 37 percent of Americans say they do not know their credit score.² Not all adults request a copy of their credit report.³ Only 38 percent of adults have gotten a copy of their credit report, which tells their credit history.⁴*

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Say: *Now let's talk about credit cards. What does a credit card look like?* Give participants time to respond. Explain that it looks like a plastic card. Ask: *Where is the money with a credit card?* Give participants time to respond. The answer is: It's not on the card. It's up to you to come up with the money when the credit card bill comes.

On a flip chart write: Using a credit card is a form of borrowing. Explain that when adults use a credit card, they are borrowing money, just like when your child borrows lunch money from a friend. Your child is borrowing money now and promising to pay it back later.

Explain that not every adult has a credit card.⁵ According to research, 78 percent of adults have a credit card.⁶ Most young adults who are 35 years or younger tend to get their first credit card when they turn 21.⁷

Ask: *What are common ways adults use credit?* Give participants time to respond. On a flip chart write: 1. Credit cards. 2. Loans.

Ask: *Which of these are ways that adults use credit? A department store credit card.* Give examples of department stores in your area. The answer is yes. Ask: *What about a mortgage loan?* The answer is yes. Explain that a mortgage loan is the name of the loan to buy a house.

Ask: *What about a bank credit card? Like a MasterCard® or Visa® card?* The answer is yes.

Ask: *What about an installment loan?* The answer is yes. Explain that an installment loan is any type of loan where you pay back the loan in installments, such as making monthly payments.

Ask: *What about an auto loan?* The answer is yes. Explain that an auto loan is a loan to buy a car or truck.

Ask: *How many credit cards does the average American credit card holder have?* Give participants time to guess. The answer is 3.5.⁸ Explain that averages can create unusual numbers such as 3.5. Explain that if you have two credit card holders, one who has 4 credit cards and the other who has 3 credit cards, the average would 3.5.

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4. Discuss (5 minutes)

Say: *Take some time to talk to the people near you. Talk to about two or three people. Take turns.*

I want you to do two things: 1. Say your first name. 2. Talk about what people in your family say about using credit cards well. Start with the person who has a parent living closest to him or her. Then have each person take a turn.

5. Review and Evaluate (15 minutes)

Review what was accomplished during this session. Ask: *What is the definition of credit?* (Answer: Credit is the ability to borrow money that must be paid back at a later date.)

Ask: *What is the difference between buying with cash and buying with credit?* (Answer: 1. With cash, you pay the amount now. With credit, you promise to pay the amount later. 2. With cash, you know if you have enough money to pay for the entire purchase. 3. If you do not pay your credit card bill on time, you will be charged a late fee.)

Ask: *What is an advantage to using credit well?* (Answer: 1. You can build a positive credit history. 2. You can improve your credit score.) Ask: *What is true about credit cards?* (Answer: Using credit is a form of borrowing.)

Ask: *What are common ways adults use credit?* (Answer: 1. Department store credit cards. 2. Mortgage loans. 3. Bank credit cards. 4. Installment loans. 5. Auto loans.) Ask: *How many credit cards does the average American credit card holder have?* (Answer: 3.5.)

At the end of the review, distribute Evaluation Posttest #1-BO-PE to each participant. Give participants time to fill out the posttest. Collect all the posttests after participants finish so you can find out the measurable outcomes for the session. The Evaluation Key #1-BO-PE has all the answers for your information.

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6. Close (5 minutes)

Do a short activity for the closing. Have participants create a circle. Ask for a volunteer. Have that person say his or her first name and that he or she can learn to use credit well. For example,

“Hi, I’m Cassie and I plan to write reminders down on my calendar or set calendar reminders on my cell phone so I can remember to pay my credit card bill on time each month.”

Then go around the circle and have each participant repeat the phrasing, saying his or her first name instead.

Say: *When we learn about credit, we can learn to use credit well.* Challenge participants to talk to family members about this topic, which is listed under the Talk about It section of their Notes. Thank participants for coming and for being involved.

Optional Activities

1. Distribute Handout #1-BO-PE: Ranking Credit Scores. Give participants the handout to complete. Afterward, discuss their answers. Handout Key #1-BO-PE has the correct answers for your information.

2. Show the PowerPoint Presentation PDF #1-BO-PE. Use the presentation to accompany the one-hour session.

3. Give Participants a Challenge. Encourage participants to use the next week to ask their children how often they borrow money. (If you wish, follow up during your next session to find out how the challenge went.)

Questions? Looking for more ideas? Visit www.bankit.com for answers and more resources.

For More Information

National Standards in K–12 Personal Finance Education (Washington, D.C., Jump\$tart Coalition for Personal Financial Literacy, 2007), standard 1 in the area of Credit and Debt.

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An Asset Builder's Guide to Youth and Money by Jolene Roehlkepartain (Minneapolis: Search Institute, 1999).

Sources

¹Ben Woolsey and Matt Schulz, "Credit Card Statistics, Industry Facts, Debt Statistics," CreditCards.com, February 11, 2011.

²Ibid.

³Ibid.

⁴Ibid.

⁵Ibid.

⁶Ibid.

⁷Ibid.

⁸Kevin Foster, Erik Meijer, Scott Schuh, and Michael A. Zabek, "The 2008 Survey of Consumer Payment Choice," The Federal Reserve Bank of Boston, April 2010, 18.

