The Basics of Credit for Parents

Notes:

Learner Outcomes

Outcome #1: Participants will be able to explain what credit is and why it is important.

Outcome #2: Participants will be able to identify at least one example of credit that adults commonly use.

Outcome #3: Participants will be able to explain the difference between buying with credit and buying with cash.

Target Audience

Parents

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 website), one for each participant
3. A pen or pencil for each participant
4. Something to track time
5. Evaluation #1-BO-PT for each participant
6. Bank It Notes #1-BO-PT for each participant
7. Optional: PowerPoint Presentation PDF #1-BO-PT
8. Optional: Handout #1-BO-PT for each participant

Timing

1 hour

Want more background and training tips?

See the free, downloadable Bank It Leader's Guide at www.bankit.com.

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Notes:

1. Welcome and Overview (5 minutes)

Arrive early. Highly consider using the optional PowerPoint Presentation PDF and the optional Handout. Both will greatly enhance your sessions. If you're using the PowerPoint Presentation PDF, show the "Welcome to Bank It" slide as participants enter the room. Greet each participant individually and learn their names as they arrive. Have them create a name tag with their first name only.

Give them a copy of the Bank It Notes #1-BO-PT and either a pen or pencil. Have participants 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 parents and teens that make it easier to understand, talk about, and manage your 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 the basics of credit, and we plan on meeting three goals. One: By the end of this session, you will be able to explain what credit is and why it is important. Two: You will be able to identify at least one example of credit that adults commonly use. Three: You will be able to explain the difference between buying with credit and buying with cash.

Feel free to use your Bank It Notes to write what you learn as we go along. At the end of the session, we will take time to complete a short evaluation. (If this session is not the first session you're presenting to this group, consider briefly discussing the optional challenge you may have given participants at the end of your previous session.)

2. Activity: Credit vs. Cash (15 minutes)

Start by defining what credit is. Say: *Credit is the ability to borrow money that you must pay back later. Credit is important because when we use credit well, we earn a higher credit score. Adults with higher credit scores are more likely to get more financial services, such as getting loans and credit cards, at cheaper rates over time. You'll also get peace of mind.*

To use credit well, you must understand how it works and how to be responsible so you can pay back what you owe in a timely manner. We're going to do a short brainstorming session. Let's write on a flip chart what the difference is between using cash and using credit for purchases.

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Note: Participants may have a hard time coming up with differences if they're not familiar with credit, so help them out. Some items to list under the cash category include: you can physically feel the money leaving your hands, you need to have enough cash with you to pay for everything you are buying, there are no extra charges, it doesn't build your credit score, and you pay immediately.

Some items to include under the credit category include: It's easy to use [swipe and sign], it may not feel like you're using your money unless you understand how credit works, you're borrowing since you don't pay until the credit card statement arrives, you pay extra money [interest] especially if you don't pay the full balance every month or you go over your monthly credit limit, and it builds your credit score if you use it well.

Give participants the chance to list their differences. Make sure to show that one is not better than the other. Using cash and using credit are just different ways of paying for things—as long as you do what you choose well.

After you've finished the comparison, debrief the activity. Ask: *What is your experience with using credit cards?*

3. Present: Keeping Your Credit in Good Shape (15 minutes)

Explain that there are different forms of credit. If you have time, have participants brainstorm the different types to see how much they know. If you don't have time, go through the five major types of credit.

Say: *The first type of credit is called service credit. This is what most people use. It is credit for using services, such as electricity, water, gas, and telephone. If your home has electricity, you are using service credit. You promise to pay the electric bill every month. If you have a cell phone, you're using service credit. You promise to pay your cell phone bill every month.*

A second type of credit is the credit card. This is typically the most well known type of credit. Adults can get a credit card to pay for purchases. (If you wish, have participants brainstorm different types. Most are familiar with some types of credit cards, but they may not realize whether they're national cards or store cards.)

There are national credit cards, such as Visa®, MasterCard®, American Express®, and Discover®. There are also individual store credit cards, such as a credit card through a gas station, a department store, or another type of store.

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A third type of credit is installment credit. This is offered through a store, such as a furniture store, or when you buy a major appliance, such as a refrigerator, oven, or washer. With this type of credit, you sign a contract, sometimes make a down payment, and then pay the amount you agreed to on a regular basis, which is called an installment. You are charged extra money because it is a loan, and it is a form of borrowing.

Make sure participants understand the financial terms you use. For example, they may not know that a down payment means paying for part of the purchase at the time of signing a contract. They may not understand that installments mean paying part of the debt at regular intervals and paying the same amount with each installment.

This is different from credit cards, for which borrowers pay a percentage of what they owe (or the entire amount) each time. That means the payment amount for credit cards can increase or decrease depending on what they owe. With installments, the payments stay the same regardless of what they owe until he loan is paid off.

A fourth type of credit is a loan. There are mortgages (which are loans to buy a house), auto loans, and personal loans.

The fifth type of credit is a line of credit. This is when you are approved to borrow a certain amount of money, such as $25,000, but you don't borrow it all at once, as you would with a loan. Instead, you may borrow $5,000 at one point, make some payments, and then borrow more later. You cannot borrow more than the amount for which you have been approved, and you will pay interest for having a line of credit.

A line of credit operates more like a credit card. You borrow only what you need to use (as long as you stay below the maximum credit line limit), and you the pay the line back, similar to a credit card—bit by bit. You usually write checks to access your line of credit.

All five major types of credit are forms of borrowing. You borrow money with the promise of paying it all back, and you pay extra (called interest) because the bank, store, or lender is providing you with money, which costs the lender money.

If you plan to distribute the optional handout, use it at this time. Ideally, the first five answers should be yes. The last five answers should be no.

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4. Discuss (10 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. Answer this question: How often do you use a credit card? Why? Start with the person who got his or her hair cut most recently. Then have each person take a turn.*

5. Review and Evaluate (10 minutes)

Review what was accomplished during this session. Ask: *What is credit?* (Answer: It is the ability to borrow money that you must pay back later.)

Ask: *Why is credit important?* (Answer: You can earn a higher credit score if you use credit well. You are more likely to be approved for more financial services, such as loans and credit cards, at cheaper rates over time if you use credit well. And you also develop peace of mind.)

Ask: *What are examples of credit that adults commonly use?* (Answers: Service credit, credit cards, installment credit, loans, and lines of credit.)

Ask: *Why is using a credit card a form of borrowing?* (Answer: Because you don't pay for the purchase at the time you buy it. You borrow the money through the credit card and then pay for it later when the credit card bill is due.)

Ask: *What is the difference between buying with credit and buying with cash?* (Answer: With cash, you can physically feel the money leaving your hands, you need to have enough cash with you to pay the entire amount immediately, there are no extra charges, it doesn't build your credit score, and you have the items paid for.

Credit is easy to use [swipe and sign], it may not feel like you're using your money unless you understand how credit works, you're borrowing since you don't pay until the credit card bill is due, you pay extra money [interest], especially if you don't pay the full balance every month or you go over your monthly credit limit, and it builds your credit score if you use it well.)

Ask: *What is one benefit of using credit?* (Answer: You can earn a higher credit score if you use credit well. You can have access to more financial services, such as loans and credit cards, at cheaper rates over time if you use credit well.)

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At the end of the review, distribute Evaluation #1-BO-PT to each participant. Give participants time to fill out the evaluation. Collect all the evaluations after participants finish so you can find out the measurable outcomes for the session.

6. Close (5 minutes)

Do a short activity for the closing. Tell participants that you will be listing a number of statements. After each one, they should stand up if they would pay cash. Have them remain sitting if they would pay with credit.

Say the first statement: *You want to buy something out of a vending machine.* (Give participants time to stand if they would pay with cash or sit if they would use credit.)

Then name other statements (one at a time), giving participants time to cast their vote by standing or sitting. Use statements such as these: *You buy a house. You buy some clothes. You buy tickets to the movies. You buy a car. You pay for groceries. You buy a birthday present for someone.*

After you finish, have everyone sit. Highly consider giving them the challenge to talk to family members about this topic, listed in the optional activities. Thank everyone for coming and participating.

Optional Activities

1. Distribute Handout #1-BO-PT: Yes or No: Your Family's Credit Card Use. Give participants the handout to complete. Afterward, discuss their answers.

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

3. Give Participants a Challenge. Encourage participants to use the next week to talk to their teenagers about credit. Ask what their teenagers think about credit. (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.

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Notes:

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

Session
#1-BO-PT