

Types of Credit

Notes:

Learner Outcomes

Outcome #1: Participants will be able to identify what credit is.

Outcome #2: Participants will be able to explain the difference between buying with cash and buying with credit.

Outcome #3: Participants will be able to describe the advantages of using credit.

Target Audience

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. Kitchen timer, clock, or stopwatch to track time
5. Evaluation Pretest #1-BO-E for each participant
6. Evaluation Posttest #1-BO-E for each participant
7. Take-Home Notes #1-BO-E for each participant
8. Optional: PowerPoint Presentation PDF #1-BO-E
9. Optional: Handout #1-BO-E 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 each participant individually and learn their names as they arrive. Have them create a name tag with their first name only.

Give participants either a pen or pencil. 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 types of credit, and we plan on meeting three goals. One: By the end of this session, you will be able to identify what credit is. Two: You will be able to explain the difference between buying with cash and buying with credit. Three: You will be able to describe the advantages of using credit.

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-E to each participant. Give them time to complete the pretest. Then collect the pretests when they have finished. The Evaluation Key #1-BO-E 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 family members use the most: credit or cash?* Give participants time to respond. Ask: *When do you usually see family members use cash?* Give participants time to respond. Ask: *When do you usually see family members 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: *Someone has borrowed money from you. What was your experience with that person 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 experiencing with borrowing money from your parents? 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 something to a brother or sister? What's your experience with paying off money you owe to someone little by little over time? What's your experience with borrowing money or an item from a friend?

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: *When you become an adult, the way you use credit will affect your 1. Credit history and 2. Your credit score. The way you borrow and lend money as a child will affect the way you use credit when you're 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 you borrowed \$20 from your mom. Your mom says to pay her back as soon as you 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 she mean by "as soon as you can"?*

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: *As a child, if you get a weekly allowance, it's usually a good idea to pay back the money you borrow on a weekly basis. So let's do this again. You borrowed \$20 from your mom. How much do you think you should pay back each week?*

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Give participants time to respond. Their answers will vary depending on how much money they get. Choose one of the examples given and write it out on a flip chart. For example, if someone says he or she can pay back \$2 a week, ask how many weeks it will take 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 from your mom twice and paid her back 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 from your mom twice and you paid her back well one time but then didn’t pay her back on time the next time, what would that do to your credit history?* (The answer is, it would show your mom you’re not reliable.) 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-E has all the correct answers for your information.

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 if you borrow lunch money from a friend. You’re borrowing money now and you’re promising to pay it back later.

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

If you want participants to become more active in the learning process, consider doing the Loan or Credit Card? activity listed under Optional Activities at the end of this session.

Ask: *How many credit cards does the average American credit card holder have?* Give participants time to guess. The answer is 3.5.¹ 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.

If you want participants to become more active in the learning process, consider doing the Types of Credit Cards activity listed under Optional Activities at the end of this session.

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 grandparent 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.)

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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. 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-E 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-E has all the answers for your information.

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 his or her family can use credit well. For example, "I'm Celia. My family can use credit well."

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 when we become adults.* Distribute the Take-Home Notes #1-BO-E. Challenge participants to talk to family members about this topic, which is listed under the Talk about It section of their Take-Home Notes. Thank participants for coming and for being involved.

Optional Activities

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

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

3. Do the Loan or Credit Card Activity. Have young people stand. Explain that you're going to name whether something is a credit card or loan. If it is a loan, they are to take one step backward. If it is a credit card, they are to take one step forward.

Say: An auto loan. (Everyone should take one step backward.) Say: A JCPenney® credit card. (Everyone should take one step forward.) Say: A MasterCard® credit card. (Everyone should take one step forward.)

Say: A mortgage loan. (Everyone should take one step backward.) Say: A student loan. (Everyone should take one step backward.) Say: A Mobil® gas credit card. (Everyone should take one step forward.)

Say: A personal loan. (Everyone should take one step backward.) Say: A Visa® credit card. (Everyone should take one step forward.) Say: Now here's a tricky one. Listen closely: A bank debit card. (Everyone should stand still, although most will probably take a step forward.)

Debrief the differences between a loan and a credit card.

4. Do the Types of Credit Card Activity. Have participants create small groups of three to four people. Give each group a piece of paper and something with which to write. Explain that each group is to list as many different types of credit cards that they have heard of.

Give groups five minutes to do the activity. Encourage them to list as many as possible. After five minutes, have groups count up their list. Then have groups report what they wrote. See how many different types of credit cards your groups can list as one large group.

5. Give Participants a Challenge. Encourage participants to use the next week to ask their parents how they decide whether to use cash or 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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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).

Source

¹Kevin 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.ek, "The 2008 Survey of Consumer Payment Choice," The Federal Reserve Bank of Boston, April 2010, 18.

