

Credit and Debt

Decisions, Decisions—
Understanding Credit
and Credit Worthiness

PwC's *Earn Your Future*[™] Curriculum

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Introduction

“The reality is that all children don’t know the basics of saving and investing. It’s a skill they need to be successful in our economy.”

- Education Secretary Arne Duncan, April 2011.

Recent history underscores the immediate need for youth to develop skills in math and financial literacy, and yet, current data shows there is a lack of access to curricula for students to learn:

- A 2011 survey conducted by American Express found that a majority of parents with children in high school or college gave schools below-average or failing grades in teaching responsible spending.
- A 2012 survey by Junior Achievement and Allstate Foundation showed 23 percent of teens are uncertain about their ability to budget successfully.
- Despite the fact that 13 states mandate personal finance coursework as a high school graduation requirement, there is no national legislation mandating that it be a requirement in schools.*

The enclosed lesson plan about financial literacy is designed to increase students’ proficiency in financial literacy. Your expert knowledge and real-life examples, coupled with this one- hour lesson plan aligned to national standards in personal finance education, will fill a critical gap in our current education system, and better prepare the next generation of leaders to make sound financial decisions and be productive citizens.

We applaud your efforts to bolster students’ understanding of concepts critical to the health of our economy and stability of our nation. Furthermore, we thank you for serving as an ambassador for PwC, reinforcing our commitment to helping students improve their skills in financial literacy and to youth education overall.

Lesson description

Students will learn the difference between buying with cash and buying with credit. Students will describe the qualities that would be desirable in a person who borrows a favorite personal possession. Given a scenario, students will describe steps that a person could take to begin to regain a lender’s trust after losing or damaging borrowed personal property.

Grade(s)

3-5

Lesson time

45-60 min

Pre-visit prep

- Review the 5-minute prep to familiarize yourself with the lesson topic vocabulary
- Review handouts to familiarize yourself with their structure and requirements
- Obtain lesson materials listed under the “Materials” section below

Student learning objectives

Students will:

- Define credit, creditworthiness, lender, borrower
- Identify qualities of a trustworthy borrower
- Outline strategies for regaining a lender’s trust

Materials

For up to 30 students, obtain ahead of time:

Class/Group

- Chart paper
- Markers
- Cell phone
- Five dollar bill: real or “play” money
- Pencil
- DVD
- Handout B Answer Key – Control of Spending: One copy for the facilitator

Student (one for each student)

- Handout A - Scenario cards (1 per pair ~ 2 cards)
- Handout B – Control of Spending

5 Minute Prep

Background

The use of credit is deeply engrained in American culture. While credit can be a useful and beneficial tool if used wisely, far too many people fall victim to poor credit habits. As of March 2010, the total revolving debt in the United States was \$852.6 billion. Of that total, 98% can be attributed to credit card debt. The average credit card debt per household with a credit card is \$16,007. It is imperative that people educate themselves about credit, proper use of credit, and the damaging effects of poor credit habits.

Vocabulary

- **Borrower:** A person who takes or receives something with the promise or intention of returning it
- **Lender:** A person who gives something to another for temporary use with the understanding that it or a like thing will be returned
- **Credit:** Trust given to a customer for future payment for goods purchase
- **Creditworthiness:** Trustworthiness with money based on prior history; a general qualification for borrowing

Sources

Background information and vocabulary adaptations based on information from:

- *Council for Economic Education 2011 Survey of the States
- Background statistics gathered from CreditCards.com: <http://www.creditcards.com/credit-card-news/credit-card-industry-facts-personal-debt-statistics-1276.php#Credit-card-debt>
- Vocabulary adapted from Merriam Webster Dictionary for Kids: www.wordcentral.com
- Vocabulary adapted from WordNet (<http://wordnet.princeton.edu/>)
- Steps to Repair Credit adapted from Bankrate.com: www.bankrate.com/brm/news/cc/20011008b.asp
- Steps to Repair Credit adapted from the National Foundation for Credit Counselling: www.nfcc.org/consumer_tools/consumertips/establish_rebuild_credit.cfm

Pre and Post Assessments

Before beginning the lesson, facilitators should introduce themselves and **distribute** the Pre-Assessment to the students. If time allows, consider conducting a mini icebreaker before the Pre-Assessment.

Note: It is highly recommended that facilitators read the questions aloud to the students and encourage students to select answers as they move through the questions. Reassure the students that the assessments are not graded tests or quizzes, and they do **not** need to put their names on the assessments. The assessments are a tool to measure classroom comprehension of a given module and gauge effectiveness of instructor delivery.

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Collect the assessments once completed.

Facilitators should teach the lesson to the students and administer and collect the Post-Assessment at the end of class, **keeping in mind the same considerations outlined above**. Again, students do **not** need to put their names on Post-Assessments.

Lesson activities

Greeting

Say: Hello everyone. My name is _____. I am glad to be here working with you all today and I think we are going to have a lot of fun while we learn some new things.

Activity A – Who would you lend to (15 minutes)

Materials

Class/Group

- Cell phone
- DVD
- Five dollar bill (real or “play” money)
- Pencil

Say: Today we are going to talk about borrowing and lending and credit. So to start off, I want to talk about lending things to people. I am going to put some things out on this table and I want to talk about who you may or may not lend these things to.

Display the following objects on a table or desk where all students can see: cell phone, DVD, five dollar bill, and pencil.

Ask: Can everyone see what I have on the table?

Say: I am going to hold up each object one at a time. Then I am going to list five different people. If you think you would lend the object I hold up to the person I say then I want you to raise your hand. I am going to count your hands each time and write down our votes. You can raise your hand for as many of the people I name as you want. Remember to only raise your hand if you would lend the item to that person. Got it? Okay, let's start.

Hold up the pencil.

Ask: How many of you would lend this to someone in your family?

Write “Pencil” on the board and underneath this, write “Family.”

Count the number of raised hands.

Write the number of raised hands you counted.

Ask: Okay, how many of you would lend this pencil to your best friend?

Write “Best Friend” under “Family.”

Count the number of raised hands.

Write the number of raised hands you counted.

Ask: How many of you would lend this to someone in this class?

Write “Classmate” under “Best Friend.”

Count the number of raised hands.

Write the number of raised hands you counted.

Ask: How many of you would lend this pencil to someone you don’t know at all?

Write “Stranger” under “Classmate.”

Count the number of raised hands.

Write the number of raised hands you counted.

Say: Very good. You all have the hang of this. So let’s do the same thing with the rest of the objects I have.

Continue the process of raising objects, naming the four groups of people, counting hands, and writing down the votes. Raise the remaining objects in the following order: DVD, five dollar bill, cell phone.

[**Note:** When you raise the DVD, **Say:** Pretend this DVD is your favorite movie or one that you just bought.]

Say: Let’s take a look at how we voted.

Ask: Why do you think we were more willing to lend some objects and not so willing to lend other objects?

Select 1-3 students to share their ideas.

Say: Those are some good points.

Ask: Why do you think we were more willing to lend to some people and not so willing to lend to other people? What was the difference?

Select 1-3 students to share their ideas.

Say: The decisions you all were making were based on the value of the object and the amount of trust you had in the person who was going to borrow the object. That is the same thing that banks do when we apply for credit.

Ask: Who knows what the word “credit” means?

Select 1-2 students to offer a definition.

Say: Thank you for sharing your ideas. **Credit** means “trust given to a customer for future payment for goods purchased.”

Write the definition on the board as you say it.

Say: The way lenders decide if they are going to give you a loan is to determine your creditworthiness. That is a kind of long word, so let's do an activity that I think will help you understand it better.

Activity B – Who is more credit-worthy (15 minutes)

Materials

Students

- Handout A – Scenario Cards (1 card per pair ~ 2 cards)
- DVD
- Five dollar bill (real or “play” money)

Say: I need 4 volunteers to act out two quick skits for the class.

Ask: Would anyone like to volunteer?

Select 4 students.

Say: I am going to put them in two pairs. Each pair is going to act out a scene that I give them. I want the rest of you to watch carefully because I am going to ask you to tell me about what you see. Then you all are going to vote on something.

Divide the four students up into two pairs.

Give each pair a separate scenario card.

Say (to each pair): Read the card and decide who is going to be the borrower and who is going to be the lender. Then figure out how you want to act it out. It has to be quick.

(Note: Students will make up their own improvised skit based on the information on the cards.)

Ask: Do you have any questions?

Answer any questions.

Give each set of students their prop.

Send the students to another part of the room to figure out their brief skit.

Ask (the class): How many of you know the Jeopardy song? We are going to sing the Jeopardy song while the groups prepare. When we are finished, the first group will come up and perform their skit.

Ask: Are you ready?

Say/Sing: The Jeopardy Song (the tune they play while players are making their final bid).

Note: When song is over ask the performing students if they are ready. If they say no, sing the song again. If they indicate that they are ready to perform move to the next part of the lesson.

Say: Okay, let's have our first pair perform their skit.

Allow the first group approximately 1-2 minutes to perform their skit.

Say: Thank you. Let's give them a hand.

Clap and retrieve the prop.

Say: Okay, let's watch the next skit.

Allow the second group approximately 1-2 minutes to perform their skit.

Say: Thank you. Let's give them a hand.

Clap and retrieve the prop.

Say: Okay, I want the borrowers from each skit to stand in the front of the room.

Say: We are going to take a vote now. I am going to put my hand over each person's head. I want you to clap for the person that you think is a good borrower. In other words, clap for the person that you would allow to borrow something valuable from you. Remember this is just based on the part they played in the skit, not how they may really act.

Place your hand over the head of the first student.

Say: Okay, clap if you think this person was a good borrower.

Place your hand over the head of the second student.

Say: Okay, now clap if you think this person was a good borrower.

Say: Thank you, you two may have a seat now.

Say: What you just saw in the skits was an example of creditworthiness. When I asked you to clap for the person who was the best borrower, you were evaluating their creditworthiness.

Ask: What do you think creditworthiness means?

Select 1-2 students to share their ideas.

Say: We define **creditworthiness** as "trustworthiness with money based on prior history; a general qualification for borrowing."

Write the definition on the board as you say it.

Ask: What made one borrower more creditworthy than the other? Can you name some of the qualities that made the person most of you clapped for more desirable?

Select students to share ideas about the qualities they saw.

Write the student ideas on the board.

Say: This is a good list. Is there anything else you want to add?

Note: If the list is sparse or slightly off-track, say: What about _____ and add a quality to the students' list to get them back on track.

Say: It is really important as you get older that you maintain good credit. In other words, you want to be the type of person that companies would want to lend things to. When you are an adult, if you are a person that companies think is not creditworthy, then it makes it harder to get some of the things you want and need.

Ask: Do any of you have some ideas about the types of things we want and need that we might have to use credit for? Think about big things that we may have to borrow money to get.

Select volunteers to share their ideas.

Write their ideas on the board.

Say: I will also share some of the things that we use credit to get.

Write houses, cars, loans for college. [**Note:** If some of these were already listed, you do not have to repeat them.]

Say: There are some pretty important things on our list. If companies didn't think we were creditworthy, we could really miss out on a lot of things.

Ask: Do you think there is a way to fix things if your creditworthiness is low?

Say: Raise your hands if you think there is something we could do to rebuild trust.

Count the number of raised hands.

Say: You are right. There are steps we can take to have companies view us as creditworthy even if they didn't see us that way before. Before I tell you how, I want you to figure out some possible ways of rebuilding trust. This time all of you will get a chance to write a skit and some of you will get to act out your skits.

Activity C – Regaining trust (15 minutes)

Materials

Class/Group

- Markers
- White board/chart paper

Say: I want everyone to think back to our earlier skits. There was a good borrower and a bad borrower. I am going to have you work in groups of four and write a skit about a bad borrower who is trying to regain the lender's trust.

Say: Your skit can show us the borrower being bad and then trying to fix the problem or you can just start from the part when the borrower is trying to fix the problem. I want every group's skit to have the following information:

Write the following list on the board:

- What the person borrowed
- How the person lost the lender's trust
- What the person does to try and regain the lender's trust
- What the lender decides to do

Say: I will give you about 7 minutes to write out your skits. When you are done, I will take volunteer groups to act out their skit in front of the class.

Ask: Does everyone understand what you are going to do? Are there any questions?

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Answer any questions.

Divide the students into pairs. You may have them work with a neighbor, select their own partners, or use some other means of dividing the class.

Allow the students 7 minutes to generate their scripts.

Walk around the room as students are working. Answer questions and guide the students if they need help. If it appears they need more time, you can extend the work session as needed.

Say: You have about 1 minute so you need to start wrapping up your ideas.

Allow students another minute to complete their work.

Say: Time is up. I am excited to see what you all came up with!

Ask: Are there any groups who would like to act out their skits?

Select 1-3 pairs (more if time permits) to act out their skits.

Remember to have students clap after each performance.

Say: That was great. You all are talented! Now I want us to go back and think about what we saw in the skits.

Activity D – Steps to regaining a lender’s trust (5 minutes)

Materials

Class/Group

- Markers
- White board/chart paper

Say: In each of the skits we saw and in each of the skits you wrote, there was a borrower who was trying to regain a lender’s trust. I want us to think about some of the things the borrower did to try and fix the problem. Let’s see if we can list the things we saw.

Ask: What were some of the specific things the borrower did to try and regain the lender’s trust? Does anyone remember what you saw or what you wrote in your own skit?

Select students to share ideas.

Write their ideas on the board.

Say: This is a pretty good list. And just like you all came up with ideas for fixing the problem, there are things adults can do to improve their creditworthiness. I am going to share some of the ways adults can fix the problem if they find themselves in a situation where lenders don’t trust them.

Write the following list on the board:

- Pay bills on time
 - **Say:** This means that you send the company any required payment by the date they request or before that date.

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- Keep balances low
 - **Say:** You shouldn't owe lots of people lots of money. Your balance tells you how much you still owe someone or a company. Make sure these amounts stay small.
 - Allow yourself only moderate credit limits
 - **Say:** Moderate is the same as saying medium or smaller. So if a credit card company offers to give you a big limit on the amount of money you can spend (like \$50,000), you should ask for a smaller limit. If your limit is smaller, you can't spend as much so you won't owe as much.
 - Avoid revolving balances
 - **Say:** When you don't pay all of your credit card bill, whatever is left over goes on the next bill. That means it revolves. This can start to make your bill add up if you keep adding more charges and then the company charges you money on top of this. It is best to pay off your balances.
 - Open checking and savings accounts
 - **Say:** You should always have some money set aside in multiple accounts. This is helpful for emergencies and to help you take care of your everyday expenses.

Closing reflections (5-8 minutes)

Materials

Class/Group

- Handout B Answer Key – Control of Spending: One copy for the facilitator

Students (one per student)

- Handout B- Control of Spending

Say: We have talked a lot today about credit and being credit worthy. The main thing you need to remember is that this all really comes down to how you spend your money. Before we end our time together, I want us to think about how we can control our spending.

Say: I am going to give each of you a handout. On the handout are sentences with blanks. There is also a word bank at the top of the page. After you receive the handout, I want you to take two minutes to work with the person sitting next to you and fill in the blanks. When the time is up, we will go over the worksheet.

Distribute Handout B.

Allow students two minute to complete the worksheet.

Say: Okay, let's go over the answers.

Read each statement and fill in the missing words.

Ask: Are there any questions?

Answer any questions.

Say: Great! Thank you all for having me in your class today. I appreciate your hard work. I think we all have a better idea about credit and creditworthiness, as well as how important it is to control how much we spend now and in the future. I enjoyed working with you all today.

Evaluation/assessment of student learning

During lesson/In-class

- Students participate in making lending decisions by evaluating potential borrowers
- Students generate list of qualities of trustworthy (creditworthy) borrowers
- Students create skit of borrowers attempting to regain trust
- Students generate list of steps to take in order to regain trust/repair creditworthiness

Ideas for post-lesson assessments

- Students define key terms from the lesson: credit, creditworthiness, lender, borrower
- Students create informational handouts or posters explaining why it is important to be creditworthy
- Students interview family members or other adults about their experiences with credit and applying for loans

Extensions/enrichment

- Teachers can establish a credit system in their classrooms for a brief period (1-2 weeks). During that time, students can build their creditworthiness by completing required tasks (i.e. homework), participating in class, and following rules. Students can then buy goods and services (i.e. homework pass, hall pass, etc.) based on their creditworthiness. Students also have the potential to damage their creditworthiness based on actions, attitudes, and behaviors (i.e. failure to complete assignments, tardiness, breaking class rules). Teachers can include an “interest” component in the system, whereby students “payback” more than what was borrowed. At the end of the credit period, teachers and students debrief and discuss the lessons learned about credit and creditworthiness.
- Students can use newspapers or the internet to monitor credit-related issues in their city, state, and the country. Encourage students to bring in credit-related news stories and share them with the class.
- Teachers may begin to introduce the concept of “interest” to students. Teachers can do this by setting up several credit card-based word problems. Students can be introduced to the concept of interest and work together to calculate how much interest they would pay on a purchased item over a given period of time. The class can then discuss the advantages of using credit versus cash in various situations.