

# The Good Life: Credit and Personal Responsibility

**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.

## ≡ NBEA STANDARD(S):

- Personal Finance, I. Personal Decision Making

## ≡ RELATED ARTICLES:

- [“Zina Kumok: ‘Getting My First Credit Card Was So Exciting’”](#)
- [“The Power of Plastic: What to Know about What You Owe”](#)
- [“Money Makes the World Go ‘Round: Are You Ready?’”](#)
- [“FinTech Puts Money Management at Your Fingertips”](#)
- [“Digital-age Danger: Learning to Protect Your Identity”](#)
- [“A Bank Account Is Your First Step to Financial Freedom”](#)

## 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.

#### Objectives/Purposes:

To introduce students to general financial literacy by learning about credit and borrowing. This lesson 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.

#### Other Resources/Materials:

- Chart paper or whiteboard
- Terms can be added to a PowerPoint presentation

#### Tying It all Together:

Allow students to brainstorm: What is credit? What types of credit can help them: a) pay for school? b) purchase a car? c) purchase big-ticket items such as furniture or a laptop?

Banks and lenders decide who to lend money to by using a process called the Three C's of Credit. They are:

1. **Capital** – Items of value that you own. These include your home, your car, and what's in your bank account.
2. **Character** – Do you have a positive financial history? Do you pay back debt? Pay bills on time?
3. **Capacity** – How will you pay back your debt? What do you earn versus what you owe (debt to income ratio)?

#### Why Is Credit Useful?

### Pros:

1. Consumers can buy needed services and goods using projected future income.
2. Consumers have an itemized record of purchases.
3. Cards are often faster than checks.

### Cons:

1. Interest always means paying more than you actually owe.
2. There are often exorbitant membership fees tacked onto your balance.
3. It is easy to overspend!
4. Identity theft – The crime of *identity theft* occurs when someone, without your knowledge, acquires a piece of your personal information and uses it to commit fraud.

### Why Do Banks Issue Credit?

Keep in mind: Banks issue credit to customers to make money! Credit is a business! It is thus imperative that you maintain good spending habits and use credit wisely, if at all.

### How Do I Use Credit Wisely?

- Good credit means – You have a history of repaying your debts IN FULL and ON TIME. You limit your monthly debt payments to less than 10% of your monthly net pay. You charge NO more than 20% of your monthly net pay on your credit cards. (the 20/10 rule) Is this you?
- Bad credit means – You are making late payments, paying too little, or exceeding your credit limit. Is this you or someone you know?

**Activity:** See activity sheet below. Allow students to work in pairs to give detailed answers to each question.

**Practice Outside of the Classroom:** Have students contact a credit counseling service such as CCC (Consumer Credit Counselors). How do people keep good credit?

**What Worked and What I Would Do Differently:** Students needed tangible examples of “identity theft.”

