

Financial Literacy in Action

Getting Started

Project-based learning activities for high school students using the Internet



Activity #2: Credit

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Introduction



FINANCIAL WORLD
AWC PRESS

CARTOON OF THE DAY



"Hooked on Credit Cards" Copyright John S. Pritchett

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Objectives



After completing the activities in this tutorial you will be able to:

- Discuss the benefits and responsibilities of using credit
- Explain how credit scoring works
- Determine the cost of credit
- Make suggestions about using credit wisely

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Projects



Based on what you learn about credit in this activity, you will have the choice of completing one of the three types of projects below.

Project 1

Design a mock website >

Project 2

Write a brochure >

Project 3

Create a set of posters >

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More Information about Credit



To get more information about credit go to these sites:

- <http://www.ftc.gov/bcp/menu-credit.htm>
This site, developed by the Federal Trade Commission, offers an extensive list of publications related to credit. Among the topics are: "Credit Repair: Getting Back in the Black" and "Credit, ATM, and Debit Cards: What to do if They re Lost or Stolen."
- <http://www.nefe.org/hsfla/firstplaceweb00/unsecured.html>
The National Endowment for Financial Education created this site to help young adults interested in obtaining their first credit card. The site provides basic information about credit, examines the features of particular credit cards, and lists many of the most popular credit cards available to young people.
- <http://www.cbmfoundation.org/educationalmaterials.html>
This site, developed by CBM Credit Education Foundation, features a set of readings on credit-related topics (e.g. "What Qualifies You for Credit," "Debt Test Alerts Consumers of Financial Danger" and "How Credit History is Developed.") The site also includes links to other sites that have information about credit.

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Project 1: Design a Mock Website



Design a website of at least four pages, titled, "What Every Teenager Should Know About Credit." Among the concepts you should discuss are: 1) Benefits and Responsibilities of Buying on Credit; 2) Tips on Using Credit Wisely; 3) Credit Scoring; and 4) Comparing the Cost of Credit.

To prepare for your project, you'll need to access the four tutorials and "More Information About Credit" below. Follow the directions that come with the tutorials. After completing this preparation, you'll be ready to start designing your web site.

Tutorials:

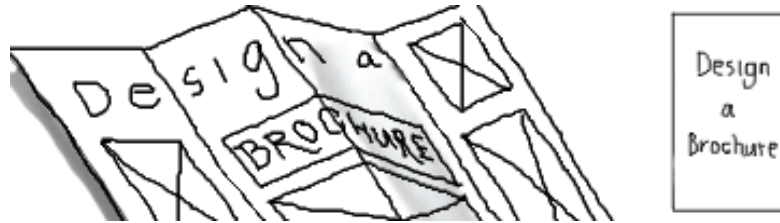
- Advantages and Disadvantages of Buying on Credit 9
- Using Credit Wisely 10
- Credit-Scoring 11
- Comparing the Cost of Credit 12

More Information About Credit 5

Credit - Project 1: Design a Mock Website

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Project 2: Write a Brochure



Write a six-panel brochure with illustrations, titled, "What Every Teenager Should Know About Credit." Among the concepts you should discuss are: 1) Benefits and Responsibilities of Buying on Credit; 2) Tips on Using Credit Wisely; 3) Credit Scoring; and 4) Comparing the Cost of Credit.

To prepare for your project, you'll need to access the four tutorials and "More Information About Credit" below. Follow the directions that come with the tutorials. After completing this preparation, you'll have enough information to write your brochure.

Tutorials:

- Advantages and Disadvantages of Buying on Credit 9
- Using Credit Wisely 10
- Credit-Scoring 11
- Comparing the Cost of Credit 12

More Information About Credit 5

Credit - Project 2: Write a Brochure

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Project 3: Create a Set of Posters



Create a set of three posters, including illustrations, on the theme, "What Every Teenager Should Know About Credit." Among the concepts you should address are: 1) Benefits and Responsibilities of Buying on Credit; 2) Tips on Using Credit Wisely; 3) Credit Scoring; and 4) Comparing the Cost of Credit.

To prepare for your project, you'll need to access the four tutorials and "More Information About Credit" below. Follow the directions that come with the tutorials. After completing this preparation, you'll have enough information to create your set of posters.

Tutorials:

- Advantages and Disadvantages of Buying on Credit 9
- Using Credit Wisely 10
- Credit-Scoring 11
- Comparing the Cost of Credit 12

More Information About Credit 5

Credit - Project 3: Create a Set of Posters

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Tutorial: Advantages and Disadvantages of Buying on Credit



Access <http://www.ianr.unl.edu/pubs/homemgt/heg195.htm#ca> and read the material on the advantages and disadvantages of using credit. Based on what you read, explain your answers to the following questions:

- What are the major advantages of using credit?
- What are the major disadvantages of using credit?
- Under what conditions is it wisest to purchase on credit?
- Under what conditions is it wisest to avoid purchasing on credit?

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Tutorial: Using Credit Wisely



Access http://www.consumerlaw.org/initiatives/bankruptcy/content/using_credit_wisely.pdf

Read pages 1-2, "Ten Things to Think about Before Getting a New Credit Card . . . or Using the One You Have." Explain your answers to the following questions:

- What conclusions can you draw about using credit wisely from reading these pages?
- What is meant by "Don't apply for a credit card until you are ready?" Why is this considered good advice?
- What is meant by "Interest rates are important in choosing a card, but not the only consideration?" What are some other important considerations?
- Before using a credit card, why is important to "establish a realistic budget?"
- Why is it advised that, "If you get into financial trouble, do not make it worse by using credit to make ends meet?"
- Describe three important lessons you learned about using credit from reading these pages? Which is the most important lesson?

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Tutorial: Credit Scoring



Establishing a good credit rating is very important. Most people need to borrow occasionally — to pay for college, a car, or a house — and can get credit only if considered creditworthy by lenders. To gain a better understanding of how creditors determine your credit worthiness, access

<http://www.ftc.gov/bcp/online/pubs/credit/scoring.pdf>. Based on what you read, explain your answers to the following questions:

- What is credit scoring?
- What would be the three most important criteria you would set in determining a credit score?
- How do lenders determine credit scores for prospective borrowers?
- How can you appeal an unfavorable credit rating? How can you improve an unfavorable rating?
- To what extent is it important for consumers to know about credit scoring?

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Tutorial: Comparing the Cost of Credit



Access <http://www.usaaedfoundation.org/financial/basic/Investing/bi02/bi02b.htm>

Based on your reading, respond to the following:

- Summarize what you learned about shopping for credit.
- How do APR, the length of the loan, and charges, such as late fees, affect the cost of credit?
- What conclusions can you draw about shopping for credit from the chart on the page?
- What advice would you give someone about borrowing money for an important purchase?