



TEACHING UNIT

General Topic: **Borrowing and Using Credit**
Unit Title: **Credit Cards**
Grade Level: **Grade 7**
Recommended Curriculum Area: **Mathematics**
Other Relevant Curriculum Area(s): **Language Arts**



The Building Futures Project is sponsored across Canada by Investors Group. CFEÉ extends our appreciation to Investors Group for their generous support.

Mathematics Expectations

- Demonstrate an understanding of the addition, subtraction, multiplication, and division of decimals to solve problems (for more than 1-digit divisors or 2-digit multipliers, the use of technology is expected.)
- Solve problems involving percents from 1% to 100%.
- Demonstrate an understanding of adding and subtracting positive fractions and mixed numbers, with like and unlike denominators, concretely, pictorially, and symbolically (limited to positive sums and differences.)
- Demonstrate an understanding of addition and subtraction of integers, concretely, pictorially, and symbolically.
- Compare and order fractions, decimals (to thousandths) and integers by using
 - benchmarks
 - place value
 - equivalent fractions and/or decimals.

Relevant Language Arts Curriculum Expectations

Listening

- 1.2** – demonstrate an understanding of appropriate listening behaviour by adapting active listening strategies to suit a wide variety of situations, including working in groups
- 1.4** – demonstrate an understanding of the information and ideas in increasingly complex oral texts in a variety of ways
- 1.6** – extend understanding of oral texts, including increasingly complex texts, by connecting, comparing, and contrasting the ideas and information in them to their own knowledge, experience, and insights, to other texts, including print and visual texts, and, to the world around them

Speaking

- 1.9** – identify a wide variety of presentation strategies used in oral texts and evaluate their effectiveness
- 2.2** – demonstrate an understanding of appropriate speaking behaviour in most situations, adapting contributions and responses to suit the purpose and audience

Reading

- 1.3** – identify a variety of reading comprehension strategies and use them appropriately before, during, and after reading to understand increasingly complex texts
- 2.2** – analyse increasingly complex texts to identify organizational patterns used in them and explain how the patterns help communicate meaning
- 2.3** – identify a variety of text features and explain how they help communicate meaning

Writing

- 1.2** – generate ideas about more challenging topics and identify those most appropriate for the purpose
- 1.3** – gather information to support ideas for writing, using a variety of strategies and a wide range of print and electronic resources
- 1.5** – identify and order main ideas and supporting details and group them into units that could be used to develop a multi-paragraph piece of writing, using a variety of strategies
- 1.6** – determine whether the ideas and information they have gathered are relevant, appropriate, and sufficiently specific for the purpose, and do more research if necessary

- 2.7** – make revisions to improve the content, clarity, and interest of their written work, using a variety of strategies
- 3.6** – proofread and correct their writing using guidelines developed with peers and the teacher
- 3.8** – produce pieces of published work to meet identified criteria based on the expectations

Relevant Economic Expectations

- Ways to pay for things over time
- Where you can borrow money
- The costs associated with borrowing money
- What a credit card is
- How a credit card works
- Different kinds of credit cards
- Factors affecting the costs of using a credit card
- What “living within your means” means

Background Information

Over 75% of Canadians have credit cards and, of those who do, they average 2.5 credit cards per person with an average debt of over \$1,200 on those cards. It is obvious with these types of statistics that students need to develop an awareness and understanding of the use of credit and how it can affect their adult lives. As they mature they will be bombarded with offers for credit cards and, if they do not handle the situation correctly, they could find themselves in serious financial difficulty. Far too often the true costs of using credit are not seen until after the commitment has been made. It is important for students to develop an awareness of these issues at an early age so when they become independent consumers themselves they will be fully prepared to handle the situation.

Overview of the Unit

This unit will use many of the strategies and activities found in the lesson plans entitled “Thinking about Credit” found at <http://learningtogive.org/lessons/unit486/lesson2.html#lesson>.

The unit will introduce the students to the concept of credit and, through various activities involving group work, consultation with families, class discussions, and online games, help them to identify the advantages and disadvantages of credit as well as the abuses of various forms of credit. They will also explore effective and responsible ways to use credit to meet their needs and wants.

Estimated Time Frame: 4 periods - 60 minutes

Suggested Implementation Strategy

Period 1 - 60 minutes

(before the class begins, if needed, make copies of the handouts)

- Begin the lesson by holding up a credit card and asking the students to identify it.
- Ask the students if their family has a credit card.
- Ask the students how many of their families have more than one credit card.
- Have the students identify the types of credit cards they know.

- Ask the students to explain why they think credit cards are so popular.
- Ask the students to define the term “credit” – **the opportunity to borrow money or receive goods or services in return for a promise to pay later.**
- Ask the students if it is a good thing to use a credit card.
- Hand out copies of the “Pros and Cons of Using Credit Cards” provided, or project the text on a Smart Board. Have the students compile a list of the concepts.
- Have the students guess what percentage of Canadians own credit cards and how many the average cardholder has – Answers – over 75% of Canadians have credit cards and the average cardholder has 2.5 cards.
- Tell the students that the average card holder owes over \$1,200 on their credit cards and ask them if they think that is a lot of money to owe on credit cards.
- After this brief discussion, tell the students that there is a general rule to make sure that you are not using the wrong kind of credit and using it too much.
- Arrange the students in small groups and provide them with a copy of the handout “Using Credit Wisely – the 20/10 rule” found on the link listed below under “Handouts/Resources.”
- Review the types of credit and the 20/10 rule with the students and ask them to complete the calculations for 1 and 2. Explain to them that net income is what remains after all deductions have been taken.
- Take up the students’ answers and ensure that they understand the concept by giving them the following question to answer:
Clare wants to buy a wide-screen TV that sells for \$2,000 cash. She will make a down payment of \$1,000 and then six monthly payments of \$200.
Applying the 20/10 rule: If Clare has a net monthly income of \$1,400 and already pays \$100 per month for a furniture installment loan, would you recommend that she purchase the TV?
- Allow the groups time to answer the question, report their decision, and explain their answer.
- Ask the groups to look again at Clare’s possible TV purchase.
- Ask the groups to determine how much it would have cost Clare if she had bought the TV under the terms she was considering.
- Once they see that Clare would have paid \$2,200 for the TV, explain to them that the terms and conditions under which you purchase something can greatly affect the final price.
- With this as background, have the groups go to the website “It Costs What?” listed under “Handouts/Resources” below and have them complete the online activity. (If computers are not available for the groups, use a common computer and lead the class through the activity.)
- Ask the groups not to complete the option of “choosing wisely” at this time.
- Inform the groups that they have the remainder of the period to complete the online game.

Period 2 - 60 minutes

- Begin by reviewing the case file pages from “It Costs What?” to reinforce the information about the costs of credit in the previous lesson.
- Inform the students that, having looked at the cost of borrowing (i.e. using a credit card versus paying cash) the focus will now be on how credit cards work.
- Provide the following explanation to the students:
Some credit cards, such as American Express, require you to pay off all of your charges each month. As a benefit, they usually have no finance charge, and sometimes no maximum limit. Most cards, including Visa and MasterCard offer what is known as revolving credit. This means they let you carry a balance, on which they charge interest (finance charges), and they require you to make a minimum payment. The minimum payment is usually about 5 percent of your current balance or \$10 – whichever is more.
- Review the explanation to ensure that the students understand how credit cards work.
- With this as background, have the students look at the following two examples that show that what you pay will vary depending on 1) your balance and 2) the interest rate.

1. **High-rate card** - Suppose you charge \$1,000 on a 23.99% credit card. After that, you make no further charges and pay only the minimum each month. The payment will start at \$51 and slowly work its way down to \$10. You'll make 77 payments over the next six years and five months. By then, you will have paid \$573.59 in interest for your credit privilege.
 2. **Low-rate card** - If you charge that same \$1,000 on a 9.9% fixed-rate card, the minimum monthly payment will start at \$50.41 and go down to \$10. You'll make 17 fewer payments, finishing in six years and paying \$176 in interest. This saves you almost \$400!
- Inform the students that they are now going to evaluate a specific credit card.
 - Using one of the three websites listed below in "Handouts/Resources" under "Credit Card Websites" assign one credit card to each group and have them research it and gather the following information about the card: (**NOTE:** If computer access will not be available to the students print out the information so that each group will have one card to study.)
 1. What type of card is it?
 2. Who is it designed for?
 3. What is the annual percentage rate?
 4. What are the benefits offered?
 5. What, if any, is the annual fee?
 6. Are there promotions to get you to take out that card – that is, do they offer a lower rate for the first short period of time?
 7. If there is a promotion for the new card holders how long does it last and then what happens?
 - Once each group has completed the task, have them design a poster that they would use to promote that credit card. Provide a piece of Bristol board for them to use for their poster.
 - Allow the groups the remainder of class time to design their poster and assign tasks for gathering any necessary materials from home to complete the poster.
 - Inform the groups that they will have 20 minutes at the beginning of the next period to complete their poster and then they must be prepared to present it to the class.

Period 3 - 60 minutes

- Begin the lesson by allowing the students the promised 20 minutes to prepare their posters and then have each group present their poster.
- Once this has been done, hold a plenary session with the class to discuss which is seen as the best choice for a credit card and why.
- Once the students have selected a card, ask them to determine what it would cost if you owed \$1,200 over a year on that card. Make certain they take the annual fees into account.
- Ask the students to identify any rewards they would receive for having that card.
- Indicate to the students that there is also another factor that affects the rates that they would pay. Even if they are allowed to possess a credit card it is their "credit rating" that will be taken into consideration; this will be the focus of the next lesson.

Period 4 - 60 minutes

- Begin the lesson by reminding the students that a credit rating affects how much you will have to pay for a loan or, indeed, whether you will get a loan in the first place.
- Explain what a credit rating is by using the following definition:
A credit rating is an assessment of the credit worthiness of individuals and corporations. It is based upon the history of borrowing and repayment, as well as the availability of assets (essentially what you own) and extent of liabilities (essentially what you owe).
- Show the students the following example of how what you do with your finances affects your credit rating and review Angela's actions and how they affect her credit rating. (It is also found as a hyperlink under "Handouts/Resources" below.)

Part 1: Angela just started college, and has been provided with a number of credit card offers. She applies for and is granted two credit cards. However, Angela doesn't realize what is necessary for responsible credit management. She starts out with a credit score of 750. See what happens to her score when she mismanages her credit. Why does each of the actions below affect her credit score?

Action:	Score Impact:	Why does her action affect her score?
Angela enjoys going to concerts, buying clothes, and going out to eat. She runs up the balance on her two new credit cards almost to their limits.	-80	Credit reporting agencies look at the total amount owed and the amount owed of a person's available credit. Running up her cards almost to their limits will lower Angela's score.
Angela is very busy with college and a part-time job. Without realizing it, she misses monthly payments on both cards.	-100	Angela's payment history is a big part of her credit score. Late payments hurt her score.
Angela continues to spend as she needs textbooks for the second semester. With this expense, she spends to the limit of one of the two cards.	-80	Running up her cards to their limits will increase the amount Angela owes and lower her score. The credit card company may raise Angela's credit limit, but Angela should not spend more money than she can afford to repay.
Angela decides she needs to earn more money to pay off her credit cards, but needs to drive to get to her new job. She takes out a loan to buy a new car.	-20	A car loan is a new credit account. Every time a new account (like a credit card or loan) is opened, Angela's score will drop slightly.
Busy with school and the new job, Angela misses a loan payment on her new car.	-75	Late payments negatively affect Angela's credit score.

Starting Score: 750

Angela's New Credit Score: 395

Part 2: Angela realizes that she hasn't acted as responsibly as she could have with her credit cards. What can she do now to improve her credit score? Use the Credit Score Student Organizer to find follow-up actions for Angela, and compute how much impact each one will improve her score.

Action:	Score Impact:	Follow-up Action:	Score Impact:
Angela enjoys going to concerts, buying clothes, and going out to eat. She runs up the balance on her two new credit cards almost to their limits.	-80	Pay off accounts.	+80
Angela is very busy with college and a part-time job. Without realizing it, she misses monthly payments on both cards.	-100	Build history of paying on time.	+40
Angela continues to spend as she needs textbooks for the second semester. With this expense, she spends to the limit of one of the two cards.	-80	Pay down credit balance.	+40
Angela decides she needs to earn more money to pay off her credit cards, but needs to drive to get to her new job. She takes out a loan to buy a new car.	-20	Six months of on-time payments.	+30
Busy with school and the new job, Angela misses a loan payment on her new car.	-75	Pay all overdue payments and keep loan current.	+20

Angela's New Credit Score with Follow-up Actions: 605

- Once this has been completed have each student take a few moments to write down their answers to the following questions:
 1. Would you own a credit card if you could? Why or why not?
 2. If you were to own a credit card what five things would you do to make certain that you used it responsibly and kept your debts under control?
- Once the students have answered these two questions have them work in pairs. Have each student, in turn, read their answers to the other. Then take a few moments where each student provides feedback to their partner about their answers.
- As a culminating activity to this unit have the students visit The City - <http://www.themoneybelt.gc.ca/theCity-laZone/eng/login-eng.aspx> and have them register and complete the Reality Check activity which will give them a good understanding of lifestyle and what it takes to afford that chosen way of living. If computer access is not available for the students to complete this task then, using a classroom computer and projection equipment, complete the activity together as a class.

Possible Evaluations

- Period 3 – the posters could be handed in for evaluation.
- Period 4 – the written response to the assigned two questions should be handed in for evaluation of how well the student has understood the strategies of careful credit management.
- Peer evaluation of group activities could also be done using the peer evaluation found below under “Handouts/Resources.”

Follow-Up Activities

1. The students could look at a monthly credit card statement and decipher the information.
2. The students could develop a mock monthly budget to examine what types of expenses would exist and how they would have to manage their finances to avoid a debt situation.
3. The students could make a pretend purchase of an article that would require financing and determine, making just minimum monthly payments, what that article would truly cost.

Modifications or Suggestions For Different Learners

1. The group activities and creative assignment with the poster allow students with different skills and abilities to contribute in a meaningful way.

Additional Related Links

- Financial Football – an online game teaching about finances – <http://www.practicalmoneyskills.com/games/trainingcamp/ff/>
- How Interest on Credit Cards Works – <http://www.buildingfuturesnetwork.com/page.php?id=EIND17>
- Saving on Credit Cards – <http://www.buildingfuturesnetwork.com/page.php?id=EIND05>
- Top Five Tips to Save Interest – <http://www.buildingfuturesnetwork.com/page.php?id=EIND19>
- The City Registration Page – <http://www.themoneybelt.gc.ca/theCity-laZone/eng/login-eng.aspx>

Handouts / Resources

- Using Credit Wisely – the 20/10 rule - http://learningtogive.org/lessons/unit486/lesson2_attachments/1.html
- It Costs What? – an interactive online game that teaches the true cost of credit - <http://www.thirteen.org/finance/games/itcostswhat.html>
- Credit Card sites: <http://www.creditcards.com/>
<http://www.credit-land.com/>
<http://www.creditcardguide.com/>
- Angela's Actions and her credit score - http://www.thirteen.org/finance/educators/p-lesson3_org2.html
- Peer Evaluation Form - <http://mason.gmu.edu/~montecin/peereval.htm>
- Sample rubric for presentations - <http://www.lessonplans.com/ext-resource.php?l=http://www.louisianavoices.org/pdfs/Unit3/Lesson1/RubricForOralPresentation.pdf>

Pros and Cons of Using Credit Cards

When it is used wisely, credit can offer some important advantages. For example:

- Some kinds of credit – like credit cards – make it easier to shop. You don't have to carry cash with you. All you have to do is pay your bill by the due date.
- Other kinds of credit – like loans and mortgages – can help us make major life purchases far sooner than we could through savings. Few people these days pay cash when they buy a car or a home.
- Sometimes people use credit to invest in the future. They borrow money to contribute to their Registered Retirement Savings Plan, for example. Or to get more education.

What are reasons NOT to borrow?

- It costs a lot to borrow. When you get a mortgage or a loan, you have to pay back the amount you borrowed, plus interest. That means you pay more for item using borrowed money than you do when using your own money. When you use a credit card, if you don't pay back the full amount you owe each month, you will pay interest on the amount that remains unpaid. Here again, that means you will end up paying the original price for a restaurant meal or a pair of shoes, plus the interest charges on those purchases until your card is paid off.
- You may buy things you really can't afford. Let's say you don't have the money to pay cash for a new TV. You buy it using a credit card. The next month, you still don't have the cash to pay off what you owe for the TV. Or the next month, or the next. It could take years before you ever pay it back. And if you do this with other things, you could soon have a huge amount of debt.
- You can get a bad *credit rating*. If you borrow too much and you don't pay it back, the bank won't let you borrow any more money. If something comes up and you really need financial help, you may not get it.

Before using loans or credit cards, think carefully about these advantages and disadvantages. Using a loan to pay for your education can often be a wise use of credit. Likewise, becoming a homeowner may be smarter than renting. Using a credit card to buy things you can't afford is never a wise use of credit and can often lead to serious problems.

The Canadian Bankers Association web site has a list of questions to ask yourself before deciding to make a purchase using credit. You can also learn more about the dangers of borrowing from the Ontario Securities Commission web site for Investor Education.