BUILDING FUTURES IN ONTARIO

TEACHING UNIT

General Topic:	**Borrowing and Using Credit**
Unit Title:	**Managing Debt and Credit**
Grade Level:	Grade 10
Recommended Curriculum Area:	Business Studies
Other Relevant Curriculum Area(s):	Language Arts

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BORROWING AND USING CREDIT

Managing Debt and Credit

Learning Level 3

GRADE

10

Business Studies Curriculum Expectations

- evaluate the products and services offered by major Canadian financial institutions
- identify the factors that need to be assessed in order to make effective purchasing decisions (e.g., cost, quality, guarantees, service, money available, product information)
- explain the advantages and disadvantages of both consumer credit and business credit
- describe the process of establishing a credit rating and applying for and obtaining credit
- calculate the total cost of a variety of loans (e.g., balance carried on credit cards, car loan, mortgage).

Relevant English Curriculum Expectations

Listening

1.4 – identify the important information and ideas in simple oral texts and some teacher-selected complex texts

1.6 – extend understanding of simple oral texts and some teacher-selected complex texts by making connections between the ideas in them and personal knowledge, experience, and insights, other texts, and, the world around them

Speaking

2.1 – communicate orally for a few different purposes and audiences

2.2 – demonstrate an understanding of a few different interpersonal speaking strategies and adapt them to suit the purpose, situation, and audience, exhibiting sensitivity to cultural differences

Reading

1.3 – identify the important ideas and supporting details in a few different types of texts

1.5 – extend understanding of simple texts and some teacher-selected complex texts by making basic connections between the ideas in them and personal knowledge, experience, and insights from other texts, and, the world around them

2.1 – identify a few different characteristics of informational, literary, and graphic text forms and explain how they help communicate meaning

Writing

1.3 – locate and select information to support ideas for writing, using a few different strategies, and, print, electronic, and other Resources

1.4 – identify, sort, and order main ideas and supporting details for writing tasks, using a few different strategies and organizational patterns

Relevant Mathematics Curriculum Expectations

- interpret and explain the relationships among data, graphs, and contexts
- describe and represent linear relations, using words, ordered pairs tables of values, graphs

Relevant Economic Expectations

- Factors affecting how much you can borrow
- Factors affecting the cost of borrowing
- Advantages and disadvantages of credit cards
- Credit rating – what it is
- Factors that will affect one's credit rating
- How a mortgage works and factors affecting the cost
- Signs a person may be heading for debt trouble
- What payday loans are, and the costs they entail

Background Information

This unit will help students learn how to make wise decisions when using credit cards and borrowing money. It will help them avoid paying higher than necessary interest rates. They will become aware of the pitfalls of having too much debt. Using a computer program, students will learn how mortgages work. They need to learn the importance of maintaining a good credit rating.

Overview of the Unit

Students will consider the factors that affect a person's ability to borrow money. After learning about credit ratings and the factors that affect credit ratings, they will be assigned the task of summarizing what they have learned.

In groups, they will look at the advantages and disadvantages of having credit cards, and make a presentation to the class. Also, they will become aware of the problems that can arise from having too much debt. Using an amortization table, students will see how changes in the principal, interest rate, and length of time of the loan affect mortgage payment. Finally, they will look at various credit card plans and decide which one they would pick to establish a good credit rating.

Estimated Time Frame: 3 periods – 60 minutes each

Suggested Implementation Strategy

Period 1 – 60 minutes   Borrowing Power

- Tell the class they will be writing a summary about what they have learned this period.
- Ask the class if their parents have credit cards.
- Ask the class how many credit cards do they think their parents have.
- How many credit cards do they think a person should have?
- Ask why do people use credit cards?
- Ask the class what the concept of a cashless society means?
- Where do people go to borrow money?
- Ask if they know what factors a bank or lending institution would use to decide if they would lend you money or give you credit?

- Direct the class to the following CFEE website and ask them to read and learn about the factors that decide your borrowing ability. p. 88–91
  The articles are called CREDIT WORTHINESS and CREDIT RATING.
  http://www.moneyandyouth.cfee.org/en/resources/pdf/moneyyouth_chap10.pdf
  (NOTE: If a computer is not available, copies of these articles are provided. Handouts 1-2.)
- Discuss what concepts were considered in these articles with the class.
- Ask the students what the factors are that affect a person's ability to borrow. (Character, Capital, Capacity)
- Give a copy of Handout 3 "Factors Affecting Credit – Summary"
  Tell the class to begin their summaries, which will be collected at the end of the period.
- If computers are available, the students may want to go the following website to find more information about the factors affecting credit ratings. http://www.creditcardreview.ca/5-factors-that-affect-your-credit-rating—article/

Period 2 – 60 minutes Credit Cards

- Begin the period by logging onto the internet and showing the class the following music video. It is a song about the problems of using credit cards. https://www.youtube.com/watch?v=2JwdlWjVHaU
- Ask the class how many have a credit card.
- Tell the students that they are going to have a chance to learn about credit cards. Direct the students to go to the following website. http://www.fcac-acfc.gc.ca/Eng/resources/toolsCalculators/Pages/CreditCa-OutilsIn.aspx
- Tell the students that today they will be considering the pros and cons of credit cards and they will be making a group presentation to the class. Encourage them to be creative when making their mind maps.
- Divide the class into small groups.
- Then hand out a large piece of blank paper. Ask each group to brainstorm their own ideas to make a mind map of the pros and cons of having credit cards.
- Groups make their presentations to the class.

(The teacher may refer to p. 91–92 in the publication *Money and Youth*, confer with the groups, and see if all the pros and cons were covered).

Period 3 – 60 minutes Mortgages

- Begin the period by reminding the class about what they learned about borrowing money.
- The teacher then reads aloud the article "Credit is a Fragile Thing" (Resource 11) This is a true story about what can happen to your credit rating.
- Ask the class the following questions:
  – What is a mortgage and how does it work?
  – When you are older, how much do you think you will have to spend to buy a house or condo?
  – What do you think a good interest rate would be for a mortgage?
  – How much do you think your monthly payments should be each month?
  – How many years do you think it will take to pay off a mortgage?
  – Does it matter how many years it may take to pay off a mortgage?
- Explain that today they will be looking at the costs involved in assuming a mortgage.
- Direct the class to use computers to open the following website:
  http://www.econedlink.org/lessons/index.php?lid=1022&type=educator

Go to Resources, #2 and open the "Click to link **here**." This will open up a Microsoft Excel Mortgage Amortization Template that looks like this.

Inputs	
Loan principal amount	
Annual interest rate	
Loan period in years	
Base year of loan	
Base month of loan	

- Instruct the students, in the Loan principal box, to enter the amount of money that they decided would be spent on a home. Enter the interest rate and the number of years they decided would be appropriate. The base year should be the present year, and the base month January.
- This box will automatically fill in the correct amounts based on the students' data entries.

Key Figures	
Annual loan payments	
Monthly payments	
Interest in first calendar year	
Interest over term of loan	
Sum of all payments	

- Ask them to make a comparison chart, noting these amounts.

Now for some eye openers!

- First, instruct the class to raise the amount of the monthly payments. Compare these figures to the first ones. What changed and by how much?
- Instruct the class to shorten the number of years to repay the loan. What changed and by how much?
- Ask them to look at the interest paid over the term of the mortgage, compared to the principal amount.
- Finally, ask the class to lower the principal. Obviously, borrowing less is a good thing!
- Allow the class 5 minutes to play around with different amounts and see what the results are.
  NOTE: If a computer is not available for individual activities, the teacher may choose to use a projector or Smart Board and do this lesson as a whole class activity.
- When the activity is completed, start a discussion by asking the class what they discovered about mortgages and rates of interest.
- Ask the class what they can do to establish a good credit rating so that they can get a mortgage in the future. (get a credit rating)
- Direct the students to the following website. Their task is to look at the various student credit cards available, choose one, and prepare a brief report on which card they chose, what the terms are and why it would be the best choice for them. http://creditcards.redflagdeals.com/t/Student-Credit-Cards/
- Depending on the time left, this assignment may be finished for homework. Collect the reports next period.

Possible Evaluations

1. Mark the summaries.
2. Assess the presentations.
3. Mark the credit card reports.
4. Use the test quiz provided.

Follow-Up Activities

1. http://www.bankrate.com/credit-cards.aspx
   This website allows teens to compare the rates of different credit cards.
2. http://www.how-to-draw-funny-cartoons.com/cartoon-credit-card.html
   This website allows the students to draw their own cartoons about credit cards.
3. http://www.ic.gc.ca/eic/site/oca-bc.nsf/eng/ca02179.html
   This is a government website about credit cards and credit ratings.
4. http://www.creditcards.com/credit-card-news/finance-games-teach-fiscal-responsibility-1273.php
   This commercial website lists 8 games that students can play to learn about credit. Some are board games, some you can play online for free. One free game, CreditSafe, challenges kids to use credit cards wisely. At the beginning of the game, they select a profile similar to your true financial situation. Next, they set up amounts in their checking and savings accounts and income from their jobs or other sources such as allowances from parents. Then they select up to three credit cards, which they use in the game.

Modifications or Suggestions For Different Learners

1. There are a variety of activities, both individual and group.
2. The group activities will allow students with multiple learning styles to participate.
3. Different learners may be partnered to do the computer activities.

Handouts

1. Credit worthiness; Credit rating
2. Factors that affect your credit rating — Summary worksheet

Resources

1. The Credit Card Song, by Old Man Pie
2. Credit Cards Tools http://www.fcac-acfc.gc.ca/Eng/resources/toolsCalculators/Pages/CreditCa-OutilsIn.aspx
3. The *Money and Youth* booklet is available online or "free" copies are available from the Canadian Foundation for Economic Education (CFEE)
4. Test Quiz

Handout 1 — Credit Worthiness

If you want a financial institution to lend you money, you will have to prove that you are able and likely to pay back the loan. This is commonly referred to as your "credit worthiness." Credit worthiness is an assessment of your ability to take on, carry, and pay back debt. The 3 Cs of credit worthiness are capital, character, and capacity.

CAPITAL

This refers to the assets you have that the creditor could draw upon if they were ever needed to pay back the loan. This would include any equity you have in a house (that part of the house that you own — the value of the house minus the mortgage), stocks, bonds, cars, and so on. As a borrower, you would probably not have any intention of using these to pay back the loan. However, if for some reason you were unable to make the payments on the loan or pay it back in full, then the creditor would like to know what assets you own that you could sell (liquidate) to obtain the financial Resources necessary to pay back the loan. Assets that you use to "secure" (prove that you can pay back) a loan are referred to as "collateral."

CHARACTER

A creditor wants to have some indication that a borrower is a responsible individual who will honour his/her debts and make regular payments. When you apply for a loan, the loans officer will meet with you and try to assess your character and how responsible and reliable you are likely to be. Some of the questions that you have to answer on a loan application may surprise you. You may be asked how long you have worked at your current job; how long you have lived at your current address; and whether you have incurred any other debts. Are you married? Do you have dependents? Being with an employer for quite a while, living at the same address for some time, being married, or having children tend to represent stability and responsibility. This doesn't mean that you can't get a loan if you aren't married with two kids and haven't worked and lived at the same place for ten years. It does mean that if you have changed jobs frequently or moved from place to place, you may encounter some hesitation from loans officers when you apply for a loan.

CAPACITY

The creditor will also be interested in your ability to carry debt. Do you have sufficient income to cover the monthly payments? Have you taken on a level of debt that is too high and that jeopardizes your ability to pay? How much cash do you have? How much do you owe? Your assets and your income level will be compared with your carrying costs on all other debt so that the creditor can assess whether or not to extend a loan to you. These, then, are the 3 Cs by which your credit worthiness will be assessed. However, regardless of your credit worthiness, your credit rating can overpower it — particularly if you have a less than favourable rating.

Handout 2 — Credit Rating

Many people are unaware that a credit rating system even exists. But it does. It exists because all of those who are in the business of extending credit are pleased to jointly share information about those individuals who have not been responsible about repaying their debts.

A credit bureau exists and operates on the basis of keeping a record of those individuals who have proved to be less than responsible in paying back debt.

If you were to purchase something from a store on a credit card and then not pay the charges on the card, the institution that issued the card to you and didn't receive payment will notify the credit bureau. The credit bureau will record that information and make it available to other creditors that contact the bureau.

Most creditors will make ongoing and serious attempts to get the borrower to repay the loan before filing information with the credit bureau. After all, their primary interest is in getting their loan back. That is why it is always important to contact the creditor if you are having problems repaying a debt and try to work out a repayment plan. Creditors will usually try to accommodate your situation. However, if they don't hear from you, they may simply file the information with the credit bureau.

Often people who are having trouble meeting their debt obligations will hear from a collection department or agency before information is filed with the credit bureau. If you are contacted in this way about a delinquent loan, accept it as a warning and deal with the matter immediately.

Even if you don't have any intention of borrowing, you never know when the need to do so may unexpectedly arise. It is always wise to maintain an ability to borrow, which includes maintaining a good credit rating.

The following are some tips for maintaining a good credit rating:

- pay your debts
- don't sign any kind of credit contract until you have read it thoroughly, understand it, and know what you are getting into
- never sign a blank form of any kind always try to pay your bills on time
- contact your creditors if you are having trouble making payments
- deal with reputable creditors (they should have a good credit rating, too)
- be cautious about co-signing for a loan

This last point requires some explanation. A person who is unable to get a loan can sometimes get a loan if someone co-signs the loan. A co-signer agrees to take on the responsibility for the loan should the borrower not make the payments. This is a serious responsibility. A parent may co-sign a loan for a child if the child is still relatively young, with limited financial resources, and wanting to buy an item such as a car. Think carefully if you are asked to co-sign for a loan. In order to establish a good credit rating, a young person might decide to get a credit card from a retailer, for example, use it when making purchases, and then pay off the bills promptly and fully. In this way, a credit rating can begin to be established even at a relatively young age. But again, self-discipline must be exercised in using the card.

It is important to achieve and protect a good credit rating. A bad credit rating can come back to plague you time and time again. It can be terribly disappointing to reach a point in your life when you want to do something such as buy a home only to discover that a poor credit rating stops you from getting a mortgage.

Handout 3 — Factors Affecting Credit – Summary

Name:____

Credit Is a Fragile Thing

Being aware of your credit and your credit score is very important, especially since you can harm your credit without even being aware of it. Here's a true story of what can happen:

Paul applied for a travel reward miles card, but never received any response from the credit card company. Since it was a high-limit travel card, Paul just assumed that he'd been declined and never thought about it again. More than a year later, Paul goes to the bank to inquire about a mortgage. The people at the bank pull up Paul's credit report and find a bad debt from the credit card company. According to the credit report, the company tried to collect for a year but recently wrote it off as a bad debt, reporting it as an R9, the worst score you can get. Of course, all this is news to Paul.

Well, it turns out there was a clerical error, and Paul's apartment suite number was missing from the address the credit card company had on file. Paul had been approved for the card but never actually received it, and any subsequent correspondence didn't get through either.

So the credit card company still charged Paul the annual fee, which he didn't pay, because he didn't know the debt existed. The annual fee collected interest for a year until the credit card company wrote it off. In the end, after jumping though several fiery hoops, Paul was able to get the problem rectified, and the card company admitted fault and notified the credit-reporting agency.

The point is, even though it was a small balance due (about $150), the administration error almost got in the way of Paul getting a mortgage.

TEST QUIZ CREDIT AND DEBT NAME:____________________

1. Define the words:

credit____

debt____

mortgage____

credit rating____

2. Name 3 advantages of using credit cards.

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3. Name 3 disadvantages of using credit cards.

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4. Which of the following is not a responsible use of credit?

a. Only borrow what you can repay
b. Always check your credit slips and monthly statements
c. Read the contract before signing it
d. Pay off the minimum amount owing every month
e. Keep your pin number and passwords secure

5. What factors affect the amount a person pays on a mortgage?

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