2. Credit/Debt

Material needed from FLB: None
Material needed from Local Site: Computer, Projector, Pencil and paper.

National K-12 Standards Covered:

Credit and Debt

- *Standard 1. Analyze the costs and benefits of various types of credit.*

Learning Outcome:

To understand credit as a financial tool and its relationship to debt.

Definition:
Credit: The ability of a customer to obtain goods or services before payment, based on the trust that payment will be made in the future.

Lesson Guideline:
Hey guys! It's nice to see you guys these week, hope you are ready for another fun lesson with Millionaires Club.

Can anybody tell me what the cool video we watched last week was about?
(Choose a raised hand)

Yeah, it was about how illusions. But, how did we apply that to becoming a millionaire?

Kids: We know that companies use visual tricks to advertise their products to younger kids, such as brightly colored cereal boxes.

Nice! Today, we are going to move on to something a little different: credit and debt. Don't worry though, we are going to use the advertising skills when we play our fun game 2 weeks from now, so don't forget it!

The first thing we will talk about is credit. In today's world, credit is integrated into everyday life. From renting a car to reserving an airline ticket or hotel room, people use credit cards to perform day-to-day actions. But what does "credit" even mean? And why do we need to know about it?

Well credit is one's ability to take on debt, or borrow money from people. while debt is the actual amount that one currently owes to creditors. Think about it this way: if someone has a stable income, and always pays off money he/she owes to other people, his/her credit will increase. An increase in credit means that one has more ability to borrow more money in the future. However, excessive use of credit can damage credit history and fiscal fitness.

Now, debt is the next step. After one has borrowed from his/her creditor, the total amount of money one owe is one's debt. This amount varies depending on how much one borrows from his/her creditor. Interest is something that should be considered as well. A creditor does not loan the borrower money without a profit; hence, the creditor will charge a certain rate of interest. Interest is commonly expressed in terms of a percentage of the original debt. More credit means more capacity for debt. Of course, one does not want to borrow an excessive amount of debt even when one has enough credit. Always remember: only borrow the amount that you actually needs!

***DO NOT discuss all of the following questions. PICK AND CHOOSE.**

**Ask question: How does the bank determine one's credit?*

Character—will you repay the debt?

From your credit history, does it look like you are honest and reliable enough to pay credit debts?

- Do you pay your bills on time?
- Do you have a good credit report?
- Can you provide character references?
- How long have you lived at your present address?
- How long have you been at your present job?

Capital—what if you don't repay the debt?

Do you have any valuable assets such as real estate, savings, or investments that could be used to repay credit debts if income is unavailable?

- What property do you own that can secure the loan?
- Do you have a savings account?
- Do you have investments to use as collateral?

Capacity—can you repay the debt?
Have you been working regularly in an occupation that is likely to provide enough income to support your use of credit?

- Do you have a steady job? What is your salary?
- How many other loan payments do you have?
- What are your current living expenses? What are your current debts?

<u>Game: Financial Pictionary:</u> (Self-explanatory game they draw the word and the peers guess the word)

1. Credit Card
2. Check
3. Bank
4. Capital (Money)