

12 4.2: Understanding Credit

PHASE OVERVIEW

Pairs will work towards reviewing the mentee's post-secondary options and analyzing the pros and cons of each option. Pairs will focus on financial aid and reading award letters to support the mentee in making a fiscally responsible decision. There are also opportunities for pairs to explore personal finances. The phase will culminate in the mentee choosing a post-secondary pathway for themselves.



LESSON OBJECTIVE

SWBAT compare the advantages and consequences of using credit and debit accounts.

PURPOSE

In their senior year of high school and when they enter their post-secondary path, students may start to receive letters from credit card companies. Many students may also be considering student loans as a way to pay for their post-secondary path. It is crucial for students to understand how credit and interest work before making major financial decisions.

AGENDA

5 min	<i>Do Now: Debit vs. Credit</i>
25 min	<i>Learn and Engage: The Importance of Credit</i>
10 min	<i>Mentor Connection</i>



KEY TAKEAWAY

Understanding the different options available to pay for my expenses will empower me to make smart financial decisions.

MATERIAL: 12.4.2 Presentation, 12.4.2 Handout

Do Now:		Notes:
Students will reflect on the difference between debit and credit.		
Slide 2: 5 min	TALKING POINTS There are two main types of payment cards: debit and credit. What do you think the difference is between the two? What do you know about each option? Are there any other forms of payment you are using? If so, what are they?	

Learn and Engage:		Notes:
Students will consider the advantages and disadvantages of each type of payment system.		
Slide 3: 1 min	<i>Have a student read the key takeaway:</i> Understanding the different options available to pay for my expenses will empower me to make smart financial decisions.	
Slide 4: 5 min	TALKING POINTS Whether you go to college, enter the workforce, or take a gap year after high school, you're going to be more financially independent. You'll be more responsible for paying for your own expenses and managing your own finances. Today, we are going to talk about the common ways to pay for your expenses. This is important to know, because it is so easy to fall into the pitfalls of financial debt. There are two different types of financial cards you can have: debit or credit. What does each term mean? <i>(ask for students to share out)</i>	
Slide 5: 6 min	TALKING POINTS Let's review the different types of payment systems, specifically debit cards, credit cards, and secured credit cards. <i>Note: The pros/cons of each payment system are animated to appear upon click. First have students think through the pros/cons and then reveal them.</i>	

	Let's first review debit cards. Essentially with a debit card, you put money into a bank account, and when you swipe your card, money is taken out of your bank account to pay for the item or service. What might be some advantages and disadvantages to this payment type? Take a minute to write down your thoughts and then we will share out. <i>Have students share out after they have written.</i> With a credit card, the bank that gave you the card pays for the item/service you want to buy, loaning you the money. At the end of the month, they send you a bill. What might be some advantages and disadvantages to this payment type? Take a minute to write down your thoughts and then we will share out. <i>Have students share out after they have written.</i> With a secured credit card, you provide a deposit that serves as your credit limit (example: you put down \$500 and then have \$500 of available credit). If you default on your payments, you lose your deposit. Many people get a secured credit card to prove to banks that they can handle the responsibility of a credit card. Some banks will not allow you to directly get a credit card, so a secured credit card can be a great way to start your credit experience. What might be some advantages and disadvantages to this payment type? Take a minute to write down your thoughts and then we will share out. <i>Have students share out after they have written.</i>	
Slide 6: 3 min	TALKING POINTS A credit score is a number that represents how good you are at paying back money you owe. Building good credit habits early on, like paying bills on time and using credit responsibly, can help improve your score over time. Failing to pay back what you owe will hurt your credit score.	

	STUDENT DISCUSSION Can anyone take a guess as to why it's important to have a high credit score? <i>(Allow students time to answer.)</i> It's important to have a high credit score because it affects your ability to get loans, credit cards, buy a home or car, and even get a job or rent an apartment.	
Slide 7: 4 min	TALKING POINTS It's important that we understand how credit works because we don't want to hurt our credit scores. Let's look at an example: I want a new computer. It costs \$1,000. I don't have enough money in my bank account, so I buy it on credit. - The credit card company charges 15% interest, and only requires a minimum payment of \$20 each month. - Each month, I only make the minimum payment. So, each month I am getting charged interest on whatever is left over. - At this rate, it will take me 6 and a half years to pay off the computer! - At the end of that time period, I will have also paid \$580 in interest. So, in total I will actually have paid \$1580 for my computer. Is buying the computer now a smart choice? Do I need it enough now to pay an extra \$580 for it? - Alternatively, I could save \$30 a month and buy the computer with cash or a debit card after two and a half years, when I have saved enough to afford it. - Or, I could shop for a less expensive computer that I can pay for more easily. - It's easy to see how credit can be appealing to buy things you really want but can't afford, but if you don't pay the full amount each month, it can add up fast. - Only use credit cards for things that you can afford to pay off the following month or in absolute emergency situations.	

Slide 8: 3 min	STUDENT DISCUSSION As we think about building and maintaining positive credit, we also need to be aware of financial scams. Has anyone heard of any financial scams? Can you share what you know?	
Slide 9: 3 min	TALKING POINTS Here are some popular scams that you should be aware of: Scam emails/texts/phone calls: - Usually tell you that you owe someone money or that they can help you make money by “investing” – ignore these - Always hang up and reaches out to the official number/email that the company uses Payday loans: - Short term, very high interest loans that are difficult to pay back Identity Theft: - Someone uses your social security number or credit/debit card pretending to be you	
Slide 10: Mentor Connection	TALKING POINTS Now let’s write to our mentors.	
Slide 11: Extend	TALKING POINTS As you are working on post-secondary application next steps, make sure to stay on top of any updates or requests from your programs. Please check your email and school portals for any updates or requests. It's important to follow up with any asks promptly and thoroughly. Remember, the email you used to apply to your programs is crucial in receiving any updates or requests. So, make sure to check that email regularly.	



Mentor Connection

1. Share your high and low from this week with your mentor.

My high from this week was...

My low from this week was...

2. How do you feel about managing your finances after high school?

What questions do you have about managing finances?

I feel _____ because...



Mentee Connection

Overview

Today, your mentee learned about the advantages and disadvantages of using credit cards and debit cards. Regardless of their post-secondary path after high school, they will be receiving credit card offers from banks and companies. There are many colleges that even make an application for a debit card and credit card part of their orientation. Understanding how credit cards and debit cards work will empower your mentee to make smart financial decisions.

This is a good opportunity for you to extend your mentee's understanding of credit by explaining the benefits of building credit responsibly. Discussing finances may be awkward or uncomfortable for your mentee. You can neutralize some of this discomfort by keeping the concepts simple and direct. Your goal is to help your mentee understand why they should be cautious about credit cards but also, they might want to get a start using a credit card responsibly after high school to build their credit score.

Your Response

1. Share your high point and low point from the week.

2. Share your experience with credit cards during or after your post-secondary pathway. Did you know what you were getting into? What, if anything, might you have done differently?