

Name \_\_\_\_\_

## Personal Finance Credit and Money Management Project

Due Monday - presented in class and the write-up e-mailed or shared with me

Families today do not spend as much time together talking about bills, credit, and loan payment. As a result, some statistics report that the average college student carries with them over \$3000 in credit card debt and almost \$1600 in debt for high school students...though this can be masked a little bit due to the need for a co-signer if you're under 18...and need proof of income if you're 18-21.

This lesson and project provides different looks into money management and credit. We've been talking a lot the past couple weeks about banking, credit, and will soon talk about loans - so now we get to put the rubber to the road. Students will look at various credit cards and the advantages and disadvantages of credit. The main point of this activity is to highlight the concept that building credit is good and important...but credit must be used with caution and careful planning and always carries with it a risk to cost the borrower more than it's worth.

Students will be have to do some work at home on this project...but the bulk of their work will be done inside of class. The interview and reflection must be typed up and shared with the class on Monday. Students will be graded on completeness of all work and how thorough they are in covering topics and depth of knowledge shown.



# What is a Credit Score?

## What can help or hinder my credit score?

There a lot of factors that go into your credit score. Some things will cause a boost in your score, other things will cause a drop in your credit score...some can do both - I know, weird, right?

Below I would like you to identify 3-5 things that can increase your credit score and 3-5 things that can cause your credit score to drop.

And in your research, identify what is considered 'Good Credit Scores' and 'Bad Credit Scores'.

## Credit Card Check-a-roo

- Research different types of credit cards. Find 3 options of credit cards of different types
  - Airline miles
  - Bank credit card - usually cash back perks
  - Merchant/Store credit card (Best Buy, Target, Amazon, etc.)
  - Points for mixed perks (entertainment tickets, events, airline, exclusive products etc.)
  - Other... \_\_\_\_\_
- Analyze each option and give the pros and cons to each one. Be sure to list the following characteristics in a chart.
  - annual fees (\$ or %)
  - interest rates (%)
  - late payment charge (\$) or forgiveness
  - black-out dates or other perk limitations
  - etc.
- Describe which card would be best for which type of customer (family, single person, traveler, businessman, employee, etc.) and why.

Name of Credit Card			
Pros or Perks			
Annual Fees			
Interest Rate (%)			
Late Payment charge			
Perk Limitations (blackout dates, special end dates)			
Other important items to take into account			
Type of Person this would benefit from this the most and why:			

## The Cost of Credit

1. Bill, Sue, and Cash want to purchase a gaming system that costs \$500 and finance it with credit. Using the information below, how much would the game system cost including finance charges?

	Total Spent	Cost of Credit
Bill paid \$45/mo. for 1 year	_____	_____
Sue paid \$12/week for one year	_____	_____
Cash paid \$25/mo for 2 years	_____	_____

Of the three loans, which one paid the most to borrow the \$500 and which one paid the least?

2. You want to borrow \$1000. Which will cost you more; paying twelve monthly payments of \$92 or monthly payments of \$36 for 36 months?

3. What are any generalized conclusions you have observed/learned about:

- \* The length of a loan?

- \* The size of the payment?

- \* The total amount a person pays for a loan?

## Paying off Debt

Rich has a \$3000 balance on a credit card with an 18% APR. His dear old grandmother thought he was a swell kiddo and left him \$3000 in her will. Should Rich pay off his debt or invest it in the recently booming 12% money market?

1. Write your hypothesis before moving on to the work below...what do you think he should do before calculating the math?

Now, using the table at the bottom of the page, answer the following questions:

2. After 5 years how much more debt would Rich have gained?
3. How much would your \$3000 have earned in the money market after ten years?
4. What would you advise Rich to do - invest the money or pay off his credit card...maybe a little of both? Explain your advice to him and why you are making that recommendation.



	Money Market at 12% APR	Credit Card at 18% APR
Beginning	\$3,000	\$3,000
Year 1	\$3,360	\$3,540
Year 5	\$5,287	\$6,863
Year 10	\$9,317	\$15,701

## Use of Credit

1. Make a list of products that you, friends or family have bought on credit:
  
  
  
  
  
  
  
  
  
  
2. What are the advantages and disadvantages of using credit to pay for:
  - a. College or vocational school tuition?
  
  
  
  
  
  
  
  
  
  
  - b. A car to get to work?
  
  
  
  
  
  
  
  
  
  
  - c. A vacation?
  
  
  
  
  
  
  
  
  
  
  - d. Clothing to wear to a formal dinner or dance?
  
  
  
  
  
  
  
  
  
  
  - e. Jewelry for you significant other?
  
  
  
  
  
  
  
  
  
  
  - f. Write some rules on when you think it is acceptable to use credit and when credit should not be used (3 or more of each)

## Credit Interview

**Directions:** Using the following questions, select and interview a person who has established credit (including credit cards, auto loans, home mortgages, second mortgages/home equity loans, etc.). Make sure the person you interview is comfortable talking to you about using credit. Be prepared to share your findings with the class. Your interview must be with an adult - a parent or guardian, an adult sibling, grandparent, extended family, a mentor, pastor, teacher, neighbor, etc.

1. What is your age?
2. What is your occupation?
3. What forms of credit do you use regularly?
4. What types of loans do you currently have?
5. How many credit cards do you currently have?
6. Have you ever 'paid off' a credit card and closed the account?
7. What age were you when you first received a credit card?
8. What motivated you to get the card?
9. What are some examples of goods/services that you have purchased with credit?

10. What credit purchases have taken the longest to pay off?
11. Would you use credit to purchase a similar item again? Why or why not?
12. Have you ever opened a credit card or line of credit at a store to get a discount, a free item, or special financing (just by opening the account)? Would you do it again? Why or why not?
13. How does using credit make you feel?
14. How concerned are you when you owe money?
15. What types of opportunity cost/trade-off do you make by choosing to pay later with credit as opposed to paying now with cash?



## Wrap-up and Reflection

Ok, time to wrap this baby up...nice and swaddled. In at least 2 typed paragraphs, share with me what you learned in working on this project...highlighting the various questions answered and the information you learned in the interview.

Beyond that, what have you learned so far in this class that you think you will be able apply to your life in the future.

Also include:

At this point of the class, what are your favorite and least favorite topics covered so far?

What do you hope to cover and learn during the rest of this trimester?

Thank you so much for your work...have fun with this project...the more fun you tend to have on something like this, the higher quality you will find in the finished product.