

# WEEKLY HIGH SCHOOL LESSON

#KEEPLARNING



Junior  
Achievement®  
of Oregon & SW Washington



## Week Seven: Understanding Credit

**Overview:** This lesson is intended to help students understand what credit is, how credit cards work, what a credit score is and how to improve one's credit score, and making healthy decisions when it comes to debt and personal finance.

**Preparation:** Review the activity and session materials. Make sure your student has all the needed materials to complete the lesson.

**Recommended Time:** 30-45 mins

### Materials:

Computer/Tablet with Internet  
Printer (recommended but not required)  
Paper  
Writing Utensil

### 1) Presentation: What is credit?

Begin the lesson by asking your students if they know what a credit card is and if they know the difference between a debit card and a credit card. You can then ask your students if any of them already have a debit or credit card. If they do, have them explain how they use the card and what it is for. Discuss with your students the differences between credit cards and debit cards. Let them know they are not the same thing. Debit cards draw directly from your bank account, spending money that you already have. Credit cards are a tool used to purchase something immediately and pay later. Credit cards are a type of agreement or loan with a financial institution that allows you to buy something even if you don't have the cash in your account at the time. Credit cards are one type of credit; there are other types of credit as well.

Explain that credit is defined as a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at a later date - generally with interest. The most common form of buying on credit is via the use of credit cards. For example: "I don't have enough cash in my bank account right now, so I am going to buy a TV on credit." The term "credit" has other meanings as well.



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Week Seven

Talk with your students about the different meanings of credit:

- The financial history of a person or company including their credit worthiness and credit history. This is most often referred to as "credit history" or in terms of a credit score. For example: "I was not approved for this loan because of my credit."
- The maximum amount of money that the lender allows an individual to borrow at any given time. This is also referred to as "credit limit". For example: "I have \$1,000 of credit available, so I can charge this TV to my credit card."

End this part of the discussion by asking, "So, how do credit cards work? How am I allowed to buy something if I don't pay for it now? Why would I want to use a credit card instead of a debit card?"

**2) Watch:** Have your students watch Credit Card vs. Debit Card Explained In Under 2 Minutes.

**[Click here to watch video](#)**

After watching, ask your students:

- What is the difference between debit and credit?
- Are credit cards free money?
- What happens if you don't pay back your credit card balance in full by the due date?
- What are the advantages of using a credit card?
- What are the disadvantages?

**3) Presentation: What is Credit Card Interest?**

Tell your students, "Credit cards may sound enticing: spend money you don't have right now, build a good record, earn rewards. But credit cards are not just free money with perks."

Ask your students to define interest. Interest is the fee you have to pay for borrowing money from someone else.

Explain that when you use a credit card, you are spending money that isn't yours. Because of this, if you don't pay off your credit card balance in full before the due date, you have to pay interest for borrowing money.

The balance on your credit card is the amount of money that you have charged to that card and not paid back yet. For example: "I had a \$0 balance on my credit card yesterday. Then, I bought a TV for \$700 on my credit card today. My credit card balance is now \$700." If you pay back the entire balance of your credit card by the due date set by your bank (generally a 1 month cycle), you do not have to pay back any interest.

Most banks require that you make at least a minimum payment on your credit card each cycle before the due date. Going back to the example above: If you had a balance of \$700 at the end of your credit card billing cycle, you could chose to pay back only the minimum payment, more than the minimum payment but less than the total balance, or the total balance. Say your bank set a \$30 minimum payment and you have a balance of \$700 at the end of your credit card billing cycle. If you pay the minimum payment only, your new balance is \$670. If you pay back \$300, your new balance is \$400. If you pay back \$700, your new balance is \$0. After the billing cycle, the balance that remains and isn't paid off is the amount of money you'd be charged interest on.

Every credit card has a interest rate, decided on by your bank. Credit card interest rates or APR (Annual Percentage Rate) are generally about 12%-25%.

**4) Watch:** Have your students watch How Credit Card Interest Works for more details.

**[Click here to watch video](#)**

### **5) Presentation: Credit History and Credit Score**

Ask your students, “Based off this lesson, is credit a good thing or a bad thing?” The answer is neither; credit is a tool to use and is not inherently bad or good.

One of the most important factors of using credit is the impact it has on your credit history.

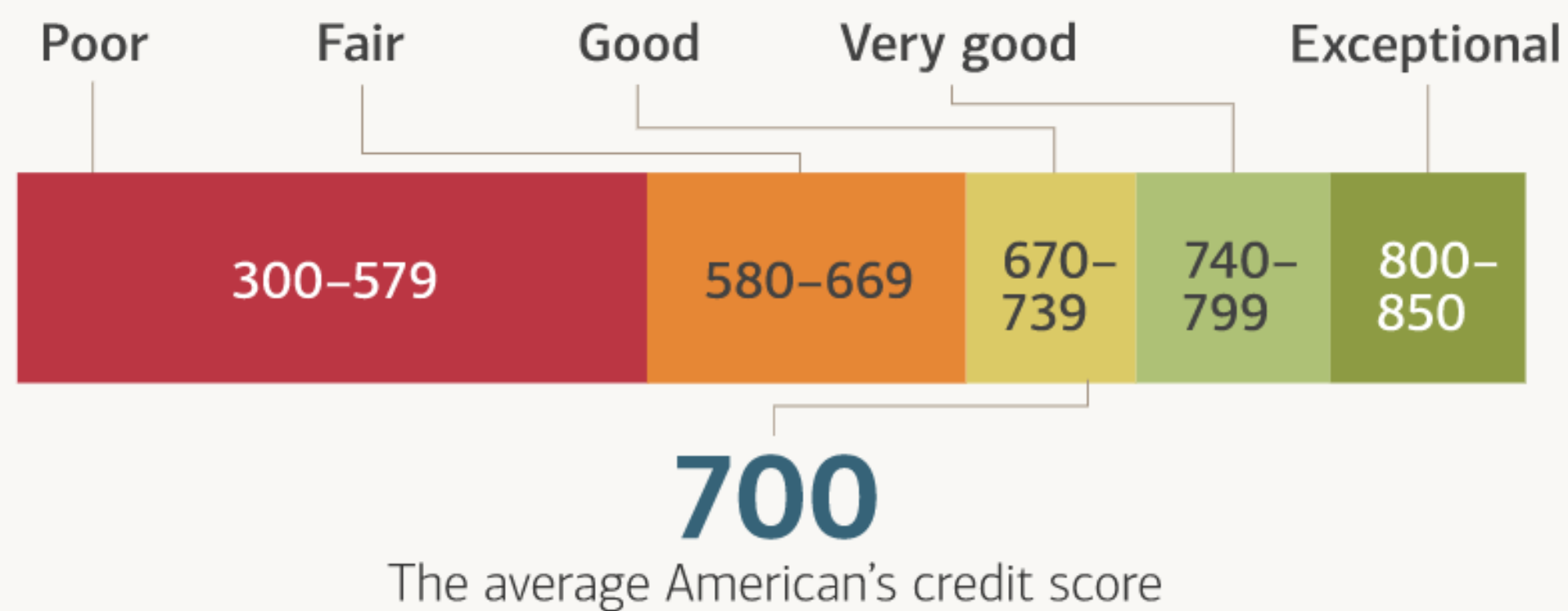
Ask your students if they know what credit history or a credit score is. Credit history is a record of a consumer's ability to repay debts and demonstrated responsibility in repaying debts. This information is all contained on a consumer's credit report . A consumer's credit history includes the following:

- Number and types of credit accounts
- How long each account has been open
- Amounts owed
- Amount of available credit used
- Whether bills are paid on time
- Number of recent credit inquiries

A person's credit score is a numeric representation of their credit history. Credit scores are most often used to judge a person's financial trustworthiness and ability to repay debt. Credit scores range from 300 to 850. Have your students take a look at the chart below to see what the numbers mean.

## What do the numbers mean?

Scores typically range from 300 to 850 and can change monthly—for better or worse—based on your actions.



Source: FICO, 2017

### 6) Discussion:

Ask your students the following questions. You can ask them verbally or have students write out their answers.

- What is the difference between a debit card and a credit card?
- Are credit cards free money?
- Does it matter in the long term if you decide to spend outside your means on a credit card? Is credit a good thing or a bad thing?
- What does your credit score measure?
- What sorts of things does your credit score impact?
- Why is it important to think about your credit history now?

**The Money JAR** - More than half of parents let their kids use credit cards and nearly half of them regret it. In this episode, the Money JAR team talks about the pros and cons of kids having credit cards. Todd, Evan, and Alex consider a T. Rowe Price study that shows the prevalence of kids from ages 8 to 14 in using credit cards, a trend which is on the rise. [Click here](#) to listen to this week's episode of the Money JAR podcast - **Kids and Credit Cards**.

# Bonus Activity! How to Build Credit Video

**Extended Activity:** 30 mins

## **Materials:**

Computer/Tablet

Blank paper

Writing utensil

## **1) Presentation:**

Students will likely ask, "How does that affect me right now?" Explain to your students that since many high school students don't have credit cards or loans yet, your students might feel like this doesn't matter to them yet. However, credit history measures a person's entire history with debt, so starting to think about credit at a young age is beneficial. It can seem intimidating to get started. How do you get a loan if you have no history of loans?

Banks and financial institutions use a person's credit history to determine if they are reliable at paying back debt and if they should be trusted with loans. Since credit history can be a determining factor in having access to important types of financial resources, maintaining good credit history should be a priority.

**2) Watch:** Have your students watch, [How to Start Building Credit From Scratch](#)

**[Click here to watch video](#)**

## **3) Activity:**

Using a blank piece of paper, have your students write out what they will want in a credit card - low interest rate, travel rewards, cash back, etc. Then have your students visit **[Nerd Wallet](#)** to compare and contrast some credit card options. Have them record the best credit card option for them.

Some students may want to discuss this with their families and if it makes sense, have them become an **authorized user** on a credit card to help build their credit now. Students would want to be sure they remember the rule - Always pay your credit card on time and try to pay off the entire balance each month!