



## Theme 4: Borrow

**Topic Connections:** Connects with *Money Smart* curriculum in the classroom: Lesson 9 (Credit and Debt).

### Topic Overview:

The concept of credit and debt is often just coming to fruition in middle school youth. They've seen credit card advertisements, and they've likely heard people talk about credit, but they often haven't had their own conversations about it. Take the time to explain the pros and cons of credit to your child and allow your child to participate in some real-life experiences using credit.

### From the classroom:

**What is credit?** Credit is when someone else, known as a lender, agrees to provide you, the borrower, with money, goods, or services in exchange for your promise to repay it by a specific date or according to a specific schedule, with interest. It is the use of someone else's money for a fee. For example, a lender may issue you a credit card, which provides you with a limited amount of money to borrow according to your ability to pay it back. Credit can also be provided in the form of loans, like college loans, car loans, small business loans, or mortgages. Always compare offers to borrow money based on the Annual Percentage Rate (APR). The lower the APR, the less you will pay in interest.

**What is debt?** Debt is something owed, usually measured in dollars. Once you use credit, you go into debt. For example, using a credit card on a \$50 purchase means that you owe (are in debt for) \$50 to the credit card company. Once that loan is paid off, you are no longer in debt. In general, the longer you take to repay a debt, the more you will pay in interest.

**In what instances should you use credit?** Determine the instances where you should use credit based on what's most important to you. Credit might be useful for you when you do not have money available to cover an emergency expense. Additionally, using a credit card and paying it off in full and within the appropriate time can help you build credit. You do not want to use a credit card if you cannot at least pay the minimum payment by the date it is due. Not paying a debt when it is due hurts your credit and can prevent you from borrowing at a good interest rate in the future.

**What are some strategies to build good credit or maintain good credit?** The best strategies to maintain credit are to 1) always pay bills on time, every time, 2) don't even come close to "maxing out" your credit cards, 3) be cautious about closing accounts that show a long history of on-time payments, 4) apply only for credit that you need, 5) request one free copy of your credit report every 12 months from each of the major nationwide credit bureaus or by visiting <http://www.annualcreditreport.com>.

**Why do I need to request a credit report?** Requesting one free copy of your credit report every 12 months from each of the three major nationwide credit bureaus is important because each company

issues its own report. Because some lenders do not provide information to all three credit bureaus, each report may contain different information. It is useful to request your report from each one in order to get a comprehensive view of your credit history.

[www.fdic.gov/consumers/consumer/news/cnwin1314/creditcards.html](http://www.fdic.gov/consumers/consumer/news/cnwin1314/creditcards.html)

## Words To Know:

**Annual Percentage Rate (APR):** The cost of borrowing money on a yearly basis, expressed as a percentage rate.

**Credit:** The ability to borrow money and pay it back later.

**Credit Card:** A plastic card that can be used to obtain credit (such as to purchase goods and services).

**Debit:** An amount of money taken out of a deposit account to pay for something.

**Debit Card:** A plastic card that can be used to deposit or withdraw cash from a checking or other bank deposit account, such as at automated teller machines or at retail locations that accept cards.

## DEBT: MONEY THAT IS OWED.

### Conversation Starters ... Ask Your Child:

- What do you know about credit cards? What is the difference between cash, credit, and debit?
- Do you think kids should be allowed to have credit cards? Who should be allowed to have a credit card?
- Is it OK to borrow money? In what situations is it a good idea to borrow money? In what situations is it a bad idea to borrow money?
- When you want to borrow something from someone, how do you show people that you are trustworthy?
- If you borrow money, what are your responsibilities?

### Try This ...

#### At Home:

**Talking Terms:** Open and review a credit card agreement together. What are the terms and conditions? Are the terms and conditions agreeable? What are your responsibilities if you open a credit card with this credit card company? (Take a look at the Consumer Protection Financial Bureau's "Know Before You Owe" sample credit card agreement at <http://www.consumerfinance.gov/credit-cards/knowbeforeyouowe/>.)

**Free Credit Report:** Order a free credit report and review it with your child. Alternately, look at an example of a credit report and review it with your child. What information does the credit report provide? How might this information be used?

**Comparing Cards:** Open some credit card junk mail with your child. Discuss what credit cards offer, the commitment made when signing up for a credit card, and scenarios that include how much you might owe if you used a credit card for a purchase. Additionally, discuss the consequences of not making credit card payments on time.

## **Around Town:**

**Advertising Awareness:** Encourage your child to take notice of the advertisements for credit cards through nonverbal (signs at stores, advertisements on buses) and verbal advertisements (cashiers asking whether you want to sign up for a store credit card). Discuss the prevalence of credit card advertising and why lenders advertise credit cards.

**Give a Little (with Interest):** The next time your child wants to make a purchase, ask if he or she wants to “borrow” the money with interest. Help weigh the pros and cons of credit.

## **Resources:**

### **Articles:**

- *Know Before You Owe* by the Consumer Financial Protection Bureau: A simplified credit card agreement that spells out the terms clearly for the consumer.  
[www.consumerfinance.gov/credit-cards/knowbeforeyouowe/](http://www.consumerfinance.gov/credit-cards/knowbeforeyouowe/)
- *Credit Reports and Credit Scores* by the Consumer Financial Protection Bureau: A consumer’s guide to credit.  
<https://www.consumerfinance.gov/consumer-tools/credit-reports-and-scores>

### **Online Tools:**

- *Credit Card Calculator* by The Federal Reserve: Helps determine the amount of money or time needed to pay off a credit card.  
<https://www.dallasfed.org/educate/calculators/open-calc.aspx>

### **Games/Apps:**

- *Junior Achievement \$ave, USA* by Junior Achievement: An online game that helps students to understand sources of income, payment methods, and the costs and benefits of using credit.  
<https://www.juniorachievement.org/web/ja-usa/junior-achievement-save-usa-interactive-lessons>