

Session Overview

Credit Management 101 - Instructor Notes

Thank you for teaching the Credit Management 101 Class :D

The instructor notes contain suggestions for you on how to teach this class. We have included a sample lesson plan that lists the relevant sections of this curriculum with instructions for you, handouts and materials needed, as well as proposed time-frames for each part of the lesson.

It is most important to us, however, that you are comfortable teaching according to your own style. So, if you have ideas as to how you would like to change certain aspects of the lesson, please go ahead. If your session focuses more on questions from participants and you adapt your plan accordingly, that is GREAT! Our materials are always work-in-progress; if you have suggestions and ideas for improvement, please share your feedback with the Lifelong Learning Coordinator ☺

Ideally, our classes will not just disseminate knowledge, but will lead to changes in participants' behavior that will result in better money management habits on their part. To this end, most examples suggested throughout this curriculum focus on money participants LOSE if they choose the less preferable option. Behavioral economics experiments have shown that *loss aversion* is a stronger motivator than potential gains. In short – people HATE TO LOSE! We hope that by phrasing our examples in terms of potential losses, we will encourage participants to avoid less preferable behaviors.

To ensure a comfortable learning atmosphere for your participants, try to arrive early at the location to set up and prepare for your class. Greet participants as they arrive and introduce yourself. At the beginning of the session, introduce yourself and ask participants to briefly introduce themselves to their neighbors (or the whole group, depending on the class size). Provide an overview of the session before you start teaching.

Please ensure that participants complete both the *PRE-CLASS* as well as the *POST-CLASS* evaluations. In addition, we have developed an instructor feedback form and ask that you take a few minutes after the class to provide us with feedback on your teaching experience. This will help us continually improve the experience for both participants and volunteers.

If you have any questions while you prepare for your class or need additional materials, feel free to contact the Lifelong Learning Coordinator at 425-644-7911.

Thank you again for your time and efforts – enjoy your class!

DISCLAIMER: Many of the materials we use were adapted from other sources. For this session we are particularly indebted to the FDIC *Money Smart* curriculum. A complete list of sources for materials and further reference is attached at the end of the instructor guide.

Credit Management 101

Lesson Plan

Topic	Activity	Notes	Materials	Time
Introduction	Briefly introduce yourself and start "reach activity"			5
Reach	What are your long-term financial goals? / Previous credit experiences	Ask participants to briefly share when they used credit before and what the experience was like		5
Reach	Learning Goals Discussion		Handout - Pre-Class Assessment	10
Teach / Try	What is Credit?	refer to section "Introduction - What is Credit"	Handout - Important Lending Terms / Handout - Buying a New TV	30
Teach / Try	Which Credit Card is Best?	refer to section "Which Credit Card Is Best?"	Handout - Truth In Lending Terms & Credit Glossary / Handout - Credit Card Comparison Chart / Handouts - Truth In Lending Disclosures (3)	30
Teach / Try	Using Credit Cards Responsibly	refer to section "Using Credit Cards Responsibly"	Handout - Debit vs. Credit Cards / Handout - Sample Credit Card Statement / Handout - For Further Information / Handout - Credit Card Payments / Handout - The Cost of Making Minimum Payments	30
Apply	Order your credit report	refer to section "Session Wrap Up"	Handout - How to Get Your FREE Credit Report / Handout - Post-Class Assessment	10
Total				120

Introduction – What Is Credit?

Credit Management 101 Skills Training- Instructor Notes

Objective

- Participants will be able to explain what credit is
- Participants will be able to identify different kinds of credit
- Participants will be able to identify financial goals they have that require credit
- Participants will be able to describe alternative strategies to using credit

Instructor Notes

- To help participants activate prior knowledge they have, conduct this part as a classroom discussion – soliciting input from participants and writing their responses on the white board or flip chart. Make sure to fill in key points that are not mentioned by participants and utilize handouts where appropriate AFTER each topic has been discussed.
- **What is Credit?** (brainstorm with participants, note answers on the board)
 - Means either money you borrow to pay for things or refers to your ability to borrow money
 - **Interest** = the cost of money you borrow / the extra money you have to pay back on top of your loan amount
 - illustrate with example: car loan for \$5,000 at 9 % over 48 months
 - Just repaying the \$5,000 would be monthly payments of \$104.17
 - Because of interest, monthly payments are \$124.43 (and total amount paid over 4 years is \$5,972.63 – you pay \$972.63 MORE for the car because you borrowed the money)
 - Collect examples from participants for types of credit – then group them into:
 - Term (fixed loan amount and length of time for repayment – usually monthly payments; e.g. **car loan**, home mortgage) vs. Revolving (no fixed term, can use credit up to specified credit limit, pay down and use again; e.g. credit cards)
 - Secured vs. unsecured
 - What is collateral? -> an asset (or something of value) that gives the lender security – if you do not pay back the money you borrowed, the lender will keep your asset
 - Discuss types of assets that could be used to secure a loan:
 - Car, house, savings account, investment accounts
 - Usually NOT accepted as collateral are: furniture, clothing, kitchenware (unless you take out a loan specifically to buy the item)
 - Briefly discuss cosigning – somebody guarantees a loan for somebody else (friends, family etc.) and they are responsible for paying it back if the person they cosigned for fails to do so
 - Distribute *handout* – **Important Lending Terms** for participants and explain that it summarizes the most important terms about loans that you have just addressed

Introduction – What Is Credit?

Credit Management 101 Skills Training- Instructor Notes

- **Why might you need credit?**
 - Ask participants to reflect on financial goals they have – what are their big, long-term goals?
 - Ask volunteers to share some of the goals they have and how credit might help them accomplish their goal (i.e. buying a house, going back to school, buying a car)
- **TRY: Credit decision-making**
 - Either add “buying a TV” to the list of examples participants provided or use it, if it was mentioned
 - Ask participants about the difference between rent-to-own and an installment loan (rent-to-own means the store is remains legal owner of item until fully paid of, technically no interest is charged – and usually no credit check performed, generally MORE expensive than taking a loan!) – refer participants to *handout* – **Important Lending Terms** for more comprehensive comparison
 - use *handout* – **Buying a New TV** for the following exercise – read the scenario with participants and ask them to work through the questions (allow about 3 min)
 - ask for a show of hands who would choose the loan option and who would rather get the TV at the rent-to-own store
 - ask participants which questions they would ask BEFORE making a decision
 - walk participants through the math to see which really is the better option:
 - **Installment loan** – price = \$1,500, APR = 12%, Term = 2 years (24 months);
monthly payment = \$70.61 -> total spent = $\$70.61 \times 24 = \mathbf{\$1,695}$
 - **Rent-to-Own** – advertised price = \$55 every other week, APR not advertised, Term to own = 52 weeks x 2 (52 payments, every OTHER week) = 2 years -> total cost = $52 \times \$55 = \mathbf{\$2,860}$
 - Frame the decision for participants in negative terms: using the rent-to-own means you pay $\$2,860 - \$1,695 = \mathbf{\$1,165 \text{ more}}$, that is \$1,165 you LOOSE!
 - **Stress** – using the rent-to-own store you can return the item at any time, but you loose the money you paid to rent it; ALSO – if you make 51 payments and miss the last one, the store can re-possess (or take back) the TV – and you loose the $51 \times \$55 = \mathbf{\$2,805}$ you already paid
 - **Stress** - credit is expensive and needs to be used responsibly! Ask participants about alternatives to spending \$1,695 dollars on a TV if they use the installment loan (i.e. buy a cheaper TV, save the money first, then buy it, ideally on sale etc. – this way, they don't loose money on interest payments)
- **Transition to next section by reviewing the different types of credit mentioned earlier.** Explain to participants that the next part of the session will focus mainly on credit cards, since probably

Introduction – What Is Credit?

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everybody gets lots of credit card offers in the mail all the time and many Americans at this point have lots of credit card debt...

Which Credit Card Is Best?

Credit Management 101 Skills Training- Instructor Notes

Objective

- Participants will be able to describe different kinds of credit cards
- Participants will be able to identify important terms and concepts in a credit card agreement
- Participants will be able to make an informed decision about characteristics of credit cards that best suit their individual needs
- Participants will simulate the decision-making process for choosing a credit card

Instructor Notes

- Discuss different kinds of credit cards:
 - Ask participants for examples of credit card (companies) they know (i.e. Visa, Master, American Express etc.)
 - Ask participants about differences in the credit cards they are aware of (i.e. fees, rewards, interest rate etc.)
 - TEACH: difference between secured and unsecured credit cards:
 - unsecured – no collateral; usually requires some credit history and good credit
 - secured – you put money into a savings account that the card issuer controls; your credit limit usually is the amount you put into the savings account – if you didn't pay your balance, the issuer would keep the money from the savings account; usually easier to get, especially when you are just starting to build credit history; after a while (usually 12 to 18 months) could be turned into an unsecured credit card
- TEACH: utilize *Handout – Truth in Lending Terms* to teach participants the most important terms related to credit card agreements; stress that ALL this information has to be sent to them by the credit card company as part of the **Truth in Lending Disclosure Statement!**
 - Refer participants to the back of the handout for some more general credit terms they might find useful to know
- Ask participants to share what they (would) look for when they decide which credit card to get – collect answers - then transition into exercise “Choosing a Credit Card”
 - Provide participants with *handout – Credit Card Comparison Chart* and one copy each of the three credit card truth in lending disclosures
 - Ask participants to study the truth in lending disclosure, record the relevant information on their chart, and then decide which credit card they would choose and why (allow about 10 minutes – provide individual support and answer questions during this time)
 - Check a few main features for each credit card to make sure participants found the right information – and ask a few volunteers to share which card they would choose and why
- As a follow up to the exercise, ask participants about other factors that might be important when choosing a credit card that are NOT disclosed in the truth-in-lending disclosures:

Which Credit Card Is Best?

Credit Management 101 Skills Training- Instructor Notes

- Customer service (brainstorm ideas with participants on HOW to access this information – i.e. talk to friends and family about credit card companies they use and how satisfied they are; calling the credit card company to ask questions about their offers to try their customer service etc.)
 - Access to account information
 - Bill payment
 - Problem resolution
- Additional protection – many credit card companies now offer additional protection services; stress that it is important to understand how those work and what the related fees are before accepting a credit card offer!
 - You lose your job and are temporarily unable to pay your bills (this only applies in very specific situations – credit card companies don't generally insure you for NOT paying your bills on time!)
 - You lose your credit card
 - Your identity is stolen
- Stress that participants can opt to NOT receive credit card offers in the mail – refer participants to *handout* – **For Further Information** for the opt-out-screen contact information

Talking Points

- Stress that there generally is no right or wrong answer to the question “Which credit card is best” – it depends on everybody's individual circumstances
- Stress that making a good decision means to really understand the terms and fees related to a credit card offer and deciding WHY you choose a specific card
- Explain that credit card companies may send credit card offers in the mail – but each lender will carefully check first before they give anybody a line of credit; things lenders look for include:
 - Credit history
 - Credit score
 - Refer participants to **Building & Repairing Your Credit** session for more information on credit history, credit reports, and credit scores

Using Credit Cards Responsibly

Credit Management 101 Skills Training- Instructor Notes

Objective

- Participants will be able to describe the difference between a debit card and a credit card
- Participants will be able to describe strategies they can employ to use credit cards responsibly
- Participants will be able to explain the steps to take if their credit card is lost or stolen
- Participants will be able to identify benefits of paying down debt faster

Instructor Notes

- Refer back to the discussion to alternatives to using credit - Ask participants what they think the main difference between a credit card and a debit card is (collect answers on the board). Utilize *Handout – Debit vs. Credit Cards* after the exercise to give to participants and address any points that have not been mentioned during the discussion.
 - Stress/ review the direct connection of a debit card to a checking account vs. paying the credit card of later
 - Utilize power-tool analogy for credit cards – can be very useful (as discussed earlier), but if you don't know how to use them right, they can also be very dangerous! Often people forget that they have to pay the credit card bill, so they spend more money than they can afford...
- Discuss what participants should do if their credit card is lost or stolen:
 - Stress importance of calling credit card company immediately – to have all the information, keep phone number for credit card company and card + account number in a safe place
 - If participants report lost or stolen cards immediately they are NOT liable for charges made on their cards above the amount of \$50 (Federal Law); if they reported the card as lost or stolen before any transactions were made, they are not liable for any charges
 - Stress that participants should do the same thing if they notice transactions on their monthly bill that they did not make – credit fraud is a big problem!
 - Refer students to the **Building & Repairing Your Credit** session for more information on their rights as consumers and to *handout – For Further Information* with contact information for trustworthy government and federal agency sites
- Ask participants to tell you what information they can find on their credit card statement – then utilize *handout – Sample Credit Card Statement* to highlight the most important information participants should find on it
 - Top right hand corner box – new balance, minimum payment, payment due date
 - List of transaction – **stress: check carefully to detect errors**
 - **Account Summary**
 - Answer any questions participants might have
 - Stress that it is important to ALWAYS check the credit card statement carefully for errors that might have occurred with respect to amounts or transactions; banks are NOT perfect ;)

Using Credit Cards Responsibly

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- Stress that ideally everybody would pay their balance off in full each month
- Ask participants what happens if they cannot pay off their balance in full each month?
 - Make at least the minimum payment – the amount they have to pay to prevent default
 - Pay INTEREST – which really makes everything you buy much more expensive !!!
 - TEACH: Review *handout* – **Credit Card Payments** (from budgeting class) and utilize *handout* – **The Cost of Making Minimum Payments** to illustrate for participants what certain items REALLY cost if they are bought on credit and how it is beneficial to pay the balance down faster (lose less money ☺)
- Stress importance of using credit cards responsibly – and ask participants to share ideas what to do if you already ARE in trouble with your (credit card) debt:
 - Make a savings and spending plan – refer to **Smart Bucks** (budgeting) class
 - Stop using your credit cards
 - Try to pay balance down as quickly as possible
 - Talk to a credit counselor

Session Wrap Up

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Objective:

- participants review what they learned during the session
- participants provide feedback on the session
- participants receive information about the next skills training classes

Instructions

- Address any remaining questions
- Summarize for participants what you have covered during the session
- Provide participants with a brief overview of the topics of the next skills training classes (building and repairing credit)
- Use *handout* – **How to Order Your FREE Credit Report** to encourage participants to order their credit report prior to the **Building & Repairing Your Credit** session
- Ask participants to complete the *handout* – **Evaluation**

Bibliography

Many partner organizations have generously agreed to share the curriculum materials they use for review and inspiration. We would like to acknowledge the following organizations for providing us with valuable input that helped improve our curriculum:

The American Center for Credit Counseling Education for providing complimentary copies of their various course materials: **Check Wi\$e, Credit When Credit is Due, and Money in Motion**

FDIC for developing a great curriculum that is available to anybody free of charge at <http://www.fdic.gov/consumers/consumer/moneysmart/index.html>

Neighborhood House for sharing their **Money Matter\$** curriculum

Port Jobs for sharing their **Financial Tools for the Trades** curriculum

Project Money for allowing us to adapt their **Reach for Your Dreams: Start Saving Now** curriculum (find more information at www.projectmoney.org)

Solid Ground for sharing their **Take Control of Your Money** curriculum

Washington Mutual for sharing their entire financial literacy curriculum series

Washington Society of CPAs for sharing their curriculum materials as well as their educational games

Furthermore, a lot of great information is available online. Here is a list of sources that we found most helpful in developing our curriculum:

www.360financialliteracy.org (American Institute of CPAs)

www.ace.uiuc.edu/cfe/ (University of Illinois - Consumer and Family Economics Extension Program - *All My Money*)

www.bankrate.com

www.dontborrowtrouble.com/ (Freddie Mac)

www.fanniemaefoundation.org/publications/Growing_Your_Money.html (Fannie Mae)

www.mindyourfinances.com (INCharge Education Foundation)

www.mymoney.gov (US Financial Literacy and Education Commission)

www.practicalmoneyskills.com/english/index.php (VISA)

www.powerpay.org

www.thebeehive.org