BUILDING FUTURES
IN MANITOBA

TEACHING UNIT

General Topic:	**Borrowing and Using Credit**
Unit Title:	**Managing Debt and Credit**
Grade Level:	Grade 10
Recommended Curriculum Area:	Language Arts
Other Relevant Curriculum Area(s):	Mathematics

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Possible Curriculum Integration Points

Grade 10 Language Arts: Recommended

Outcomes:

Express Ideas
- consider the potential of emerging ideas through a variety of means [such as talking, mapping, writing journals, rehearsing, drafting, role-playing, brainstorming, sketching…] to develop tentative positions

Consider Others' Ideas
- seek and consider others' ideas through a variety of means [such as interviews, Internet discussion groups, dialogue…] to expand understanding

Develop Understanding)
- clarify and shape understanding by assessing connections between new and prior knowledge, ideas, and experiences

Explain Opinions
- explain opinions, providing support or reasons; anticipate other viewpoints

Develop Understanding)
- clarify and shape understanding by assessing connections between new and prior knowledge, ideas, and experiences

Comprehension Strategies
- select, describe, and use comprehension strategies [such as inferring, visualizing, summarizing, recalling, replaying, reviewing…] to monitor understanding and develop interpretations of a variety of texts

Forms and Genres
- recognize the appropriateness of various forms and genres [such as oral presentations, pamphlets, posters…] for various audiences and purposes

Participate in Group Inquiry up Inquiry
- collaborate to determine group knowledge base and to define research or inquiry purpose and parameters

Identify Personal and Peer Knowledge
- select relevant personal and peer knowledge, experiences, and perspectives related to inquiry or research topic

Record Information
- select and record important information and ideas using an organizational structure appropriate for purpose and information source

Develop New Understanding
- integrate new information with prior knowledge to draw logical conclusions and to refine understanding; consider alternative ways of reaching inquiry or research goals

Organize Ideas
- select organizational structures and techniques to create oral, written, and visual texts; use effective introduction, well organized body, and effective conclusion to engage and sustain audience interest

Revise Content
- analyze and revise drafts to ensure appropriate content, accuracy, clarity, and completeness

Cooperate with Others
- make and encourage contributions [such as making accurate notes, exploring others' viewpoints, listening attentively…] to assist in developing group ideas; take responsibility for developing and expressing viewpoints

Work in Groups
- demonstrate effective group interaction skills and strategies

Use Language to Show Respect
- recognize and analyze how language, symbols, and images are used to include or exclude people across cultures, races, genders, ages, and abilities

Share and Compare Responses
- consider various ideas, evidence, and viewpoints to expand understanding of texts, others, and self

Other Relevant Curriculum Area(s)

Grade 10 Mathematics

Outcomes:

- interpret and explain the relationships among data, graphs, and contexts
- describe and represent linear relations, using words, ordered pairs tables of values, graphs

Relevant Economic Outcomes

- Factors affecting how much you can borrow
- Factors affecting the cost of borrowing
- Advantages and disadvantages of credit cards
- Credit rating – what it is
- Factors that will affect one's credit rating
- How a mortgage works and factors affecting the cost
- Signs a person may be heading for debt trouble
- What payday loans are, and the costs they entail

Background Information

This unit will help students learn how to make wise decisions when using credit cards and borrowing money. It will help them avoid paying higher than necessary interest rates. They will become aware of the pitfalls of having too much debt. Using a computer program, students will learn how mortgages work. They will also learn the importance of maintaining a good credit rating.

Overview of the Unit

Students will consider the factors that affect a person's ability to borrow money. After learning about credit ratings and the factors that affect credit ratings, they will be assigned the task of summarizing what they have learned.

In groups, they will look at the advantages and disadvantages of having credit cards, and make a presentation to the class. Also, they will become aware of the problems that can arise from having too much debt. Using an amortization table, students will see how changes in the principal, interest rate, and length of time of the loan affect mortgage payment. Finally, they will look at various credit card plans and decide which one they would pick to establish a good credit rating.

Estimated Time Frame: 3 periods — 60 minutes each

Suggested Implementation Strategy

Period 1 60 minutes Borrowing Power

- Tell the class they will be writing a summary about what they have learned this period.
- Ask the class if their parents have credit cards.
- Ask the class how many credit cards do they think their parents have.
- How many credit cards do they think a person should have?
- Ask why do people use credit cards?
- Ask the class what the concept of a cashless society means.
- Ask them also to identify where do people go to borrow money.
- Ask if they know what factors a bank or lending institution would use to decide if they would lend you money or give you credit.
- Direct the class to the following CFEE website (Money and Youth):
  http://www.moneyandyouth.cfee.org
- Ask them to go to Chapter 12 and read the articles called "YOUR CREDIT WORTHINESS and CREDIT RATING" on P. 145–148 to learn about the factors that decide your borrowing ability.
  (NB. If a computer is not available, copies of these articles are provided. Handout 1.)
- Discuss what concepts were considered in these articles with the class.
- Ask the students to identify the factors are that affect a person's ability to borrow.
  (Character, Capital, Capacity)
- Give them a copy of Handout 2 "Factors Affecting Credit – Summary."
- Tell the class to begin their summaries, which will be collected at the end of the period.
- If computers are available, the students may want to go the following website to find more information about the factors affecting credit ratings.
  http://www.creditcardreview.ca/5-factors-that-affect-your-credit-rating—article/

Period 2 60 minutes Credit Cards

- Begin the period by logging onto the internet and showing the class the following music video.
  It is a song about the problems of using credit cards.
  https://www.youtube.com/watch?v=2JwdIWjVHaU
- Ask the class how many have a credit card.
- Tell the students that they are going to have a chance to learn about credit cards. Direct the students to the following website and have them take the quiz.
  http://www.fcac-acfc.gc.ca/Eng/resources/toolsCalculators/Pages/CreditCa-OutilsIn.aspx
- Tell the students that today they will be considering the pros and cons of credit cards and they will be making a group presentation to the class. Encourage them to be creative when making their mind maps.
- Divide the class into small groups.

- Hand out a large piece of blank paper. Ask each group to brainstorm their own ideas to make a mind map of the pros and cons of having credit cards.
- Once completed have the groups make their presentations to the class.
  (The teacher may refer to Chapter 12, P. 151 in "Money and Youth," and confer with the groups to see that all the pros and cons were considered.)

Period 3 60 minutes Mortgages

- Begin the period by reminding the class about what they learned about borrowing money.
- The teacher then reads aloud the article "Credit is a Fragile Thing" (found under Resources).
- This is a true story about what can happen to your credit rating.
- Ask the class the following questions:
  - What is a mortgage and how does it work?
  - When you are older, how much do you think you will have to spend to buy a house or condo?
  - What do you think a good interest rate would be for a mortgage?
  - How much do you think your monthly payments should be each month?
  - How many years do you think it will take to pay off a mortgage?
  - Does it matter how many years it may take to pay off a mortgage?
- Explain that today they will be looking at the costs involved in assuming a mortgage.
- Direct the class to use computers to open the following website:
  http://www.econedlink.org/lessons/index.php?lid=1022&type=educator
  Go to Resources, #2 and open the "Click to link here." This will open up a Microsoft Excel Mortgage Amortization Template that looks like this.

Inputs	
Loan principal amount	
Annual interest rate	
Loan period in years	
Base year of loan	
Base month of loan	

- Instruct the students, in the Loan principal box, to enter the amount of money that they decided would be spent on a home. Enter the interest rate and the number of years they decided would be appropriate. The base year should be the present year, and the base month Jan.
  This box will automatically fill in the correct amounts based on their data entries.

Key Figures	
Annual loan payments	
Monthly payments	
Interest in first calendar year	
Interest over term of loan	
Sum of all payments	

- Ask them to make a comparison chart, noting these amounts.

Now for some eye openers!

- First, instruct the class to raise the amount of the monthly payments. Compare these figures to the first ones. What changed and by how much?
- Instruct the class to shorten the number of years to repay the loan. What changed and by how much?
- Ask them to look at the interest paid over the term of the mortgage, compared to the principal amount.
- Finally, ask the class to lower the principal. Obviously, borrowing less is a good thing!
- Allow the class 5 minutes to play around with different amounts and see what the results are.

  N.B. If a computer is not available for individual activities, the teacher may choose to use a projector or Smart Board and do this lesson as a whole class activity.
- When the activity is completed, start a discussion by asking the class what they discovered about mortgages and rates of interest.
- Ask the class what they can do to establish a good credit rating so that they would qualify for a mortgage in the future if needed? (get a credit rating)
- Direct the students to the following website. Their task is to look at the various student credit cards available, choose one, and prepare a brief report on which card they chose, what the terms are and why it would be the best choice for them.
  http://creditcards.redflagdeals.com/t/Student-Credit-Cards/
- Depending on the time left, this assignment may be finished for homework. Collect the reports next period.

Possible Evaluations

1. Mark the summaries.
2. Assess the presentations.
3. Mark the credit card reports.
4. Use the test quiz provided.

Follow-Up Activities

1. http://www.bankrate.com/credit-cards.aspx
   This website allows teens to compare the rates of different credit cards.
2. http://www.how-to-draw-funny-cartoons.com/cartoon-credit-card.html
   Use this website to draw their own cartoons about credit cards.
3. http://www.ic.gc.ca/eic/site/oca-bc.nsf/eng/ca02179.html
   This is a government website about credit cards and credit ratings.
4. http://www.creditcards.com/credit-card-news/finance-games-teach-fiscal-responsibility-1273.php
   This commercial website lists 8 games that students can play that to learn about credit. Some are board games, some you can play online free. One free game, CreditSafe, challenges kids to use credit cards wisely. At the beginning of the game, they select a profile similar to your their financial situation. Next, they set up amounts in their checking and savings accounts and income from their jobs or other sources such as allowances from parents. Then they select up to three credit cards, which they use in the game.

Modifications or Suggestions for Different Learners

1. There are a variety of activities, both individual and group.
2. The group activities will allow students with multiple learning styles to participate.
3. Different learners may be partnered to do the computer activities.

Handouts

1. Your credit worthiness
2. Factors that affect your credit rating– Summary worksheet

Resources

1. The Credit Card Song, by Old Man Pie
2. Credit Cards
   http://www.fcac-acfc.gc.ca/Eng/resources/toolsCalculators/Pages/CreditCa-OutilsIn.aspx
3. "Money and Youth," Canadian Foundation for Economic Education
4. Test Quiz

Your Credit Worthiness

Handout 1

If you want or need to borrow money, you will have to make sure the possible lender is confident that you are able to pay back the loan.

Anyone thinking of lending you money will be interested in your "credit worthiness." Your credit worthiness is simply a lender's check on your ability to take on, carry, and pay back debt. To check your credit worthiness, a lender will consider the "3 Cs"—your capital, character, and capacity. These aren't the only things that will be of interest to the lender. Your "credit rating" will also be very important. More on that shortly. But let's look at the 3Cs so that you know about some of the things that might affect your chances of getting a loan.

Capital

This refers to things you own. They have value and could possibly be sold if money was needed to pay back the loan. As you may know, things you own that have value are called "assets." Your assets can include any "equity" you have in a house (that part of the house that you own—the value of the house minus the mortgage), stocks, bonds, cars, savings, and so on.

As a borrower, you would probably not have any intention of selling these assets or cashing them in to pay back the loan. However, if for some reason you were unable to make the payments or pay back the loan in full, then the lender wants some protection. The lender would like to know what assets you own that could be cashed in or sold ("liquidated") to get the money needed.

Assets that you use to "secure" a loan—show you could find a way to pay back a loan if need be—are called "collateral."

The problem some people face is that they may not have much collateral to back a loan. In that case, the lender may ask for someone to "co-sign" the loan. A co-signer is someone who will agree to pay back the loan if the borrower, for some reason, is not able to repay. Asking someone to co-sign a loan is asking them to take on a serious responsibility. And being a co-signer is taking on considerable responsibility. Any co-signer should be careful before co-signing a loan—a loan he or she may have to help repay. So your "capital" is the assets that you have, to provide some possible "collateral" if needed. If you don't have capital, the lender may ask for a co-signer—another person who will take on some responsibility for the loan. Now, how about your character?

Character

When you apply for a loan, the loans officer will also be interested in your "character"—how responsible you seem to be and how reliable you are likely to be in repaying the loan.

Some of the questions that you have to answer on a loan application may surprise you. You may be asked how long you have worked at your current job; how long you have lived at your current address; and whether you have incurred any other debts; whether you are married; and if you have any dependents.

Why such questions? The lender (creditor) will be looking for signs of "stability," "responsibility," "reliability," and so on. Being with an employer for quite a while, living at the same address for some time, being married, or having children or other dependents tend to be signs of stability and that you have taken on responsibility. This doesn't mean that you can't get a loan if you aren't married with two kids and haven't worked and lived at the same place for ten years. It also doesn't mean that you will get a loan if you have. It does mean that if you have changed jobs frequently, are unemployed, or have moved from place to place, or have been married three times you may encounter some hesitation from loans officers when you apply for a loan.

The lender will be looking to learn something about you—and the kind of person you are. You would probably want to know something about a person who asked you for a loan too.

We've looked at your capital (what you own) and your character (indications of the kind of person you are). Now how about whether you can afford the loan? That's your capacity.

Your Credit Worthiness (continued)

Handout 1 - continued

Capacity

The creditor will also want to know if you can afford the payments on the loan. Do you have enough income to pay the monthly cost? Do you have other expenses that may make it hard for you to make the monthly payments? Do you have other debts? What you own, what you owe, and what you earn will be of interest to the possible lender.

These, then, are "the 3 Cs" that help to show your credit worthiness—and whether you are a credit risk. However, your credit rating will probably be as, or more important, to the lender if you are looking for a loan.

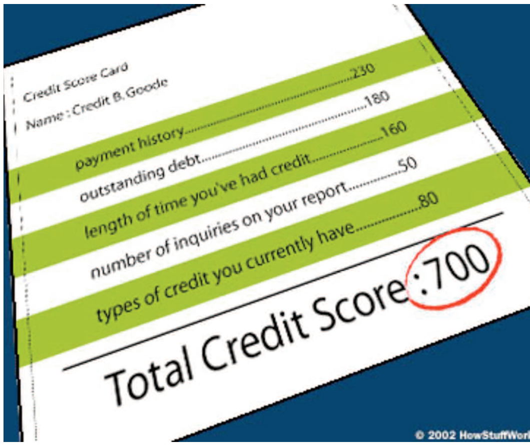
Credit Rating

Many people don't know a credit rating system exists. But it does. Those who are in the business of lending money share information. They share information about people to whom they have loaned money. They share information about those who have been good in repaying their debts—and making payments on time. They also share information on those who have not been so good—or who regularly make payments late—or who have not paid their debts.

For example, suppose you purchased something from a store on a credit card. Then, for some reason you did not pay the charges on the card. If that happens, the credit card company will probably first try and get you to pay the charge. If you still don't pay, the credit card company may notify the "credit bureau." And that can go on your record and may affect your ability to borrow money.

There are a number of "credit rating agencies" that keep this information. For example, two large agencies in Canada are "Equifax" and "TransUnion Canada." They keep records on people who borrow money—who they borrow from, how much they have borrowed, how good they are at repaying their debts, and so on. They also have information on bills you may not have paid—and should have. Based on all the information they have, they will calculate a credit score. The credit bureaus will make the information they have available to other lenders. Therefore, before making a loan, lenders will usually check with the rating agencies and check out your credit score.

Now here is a very important point. You can go to these companies to check out your credit rating—and you should. You may find things there you didn't know about—or you may find things that are wrong. A lender may have sent in notice that you didn't pay a debt—but you did, only late. But it may show on your credit rating that you never paid the debt—and that won't help your credit score.



Factors Affecting Credit—Summary

Handout 2

Student's Name ______________________________

Credit is a Fragile Thing

Being aware of your credit and your credit score is very important, especially since you can harm your credit without even being aware of it. Here's a true story of what can happen:

Paul applied for a travel reward miles card, but never received any response from the credit card company. Since it was a high-limit travel card, Paul just assumed that he'd been declined and never thought about it again. More than a year later, Paul goes to the bank to inquire about a mortgage. The people at the bank pull up Paul's credit report and find a bad debt from the credit card company. According to the credit report, the company tried to collect for a year but recently wrote it off as a bad debt, reporting it as an R9, the worst score you can get. Of course, all this is news to Paul.

Well, it turns out there was a clerical error, and Paul's apartment suite number was missing from the address the credit card company had on file. Paul had been approved for the card but never actually received it, and any subsequent correspondence didn't get through either.

So the credit card company still charged Paul the annual fee, which he didn't pay, because he didn't know the debt existed. The annual fee collected interest for a year until the credit card company wrote it off. In the end, after jumping though several fiery hoops, Paul was able to get the problem rectified, and the card company admitted fault and notified the credit-reporting agency.

The point is, even though it was a small balance due (about $150), the administration error almost got in the way of Paul getting a mortgage.

Test Quiz: Credit and Debt

Student's Name ______________________________ **Date** ______________

1. Define the words:

   credit ______________________________

   debt ______________________________

   mortgage ______________________________

   credit rating ______________________________

2. Name 3 advantages of using credit cards.

   ____

   ____

   ____

3. Name 3 disadvantages of using credit cards.

   ____

   ____

   ____

4. Which of the following is not a responsible use of credit?
   a. Only borrow what you can repay
   b. Always check your credit slips and monthly statements
   c. Read the contract before signing it
   d. Pay off the minimum amount owing every month
   e. Keep your pin number and passwords secure

5. What factors affect the amount a person pays on a mortgage?

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