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| **TEXAS CTE LESSON PLAN**  [www.txcte.org](http://www.txcte.org) | |
| **Lesson Identification and TEKS Addressed** | |
| **Career Cluster** | Business Management and Administration |
| **Course Name** | Principles of Business, Marketing and Finance |
| **Lesson/Unit Title** | The Purpose and Importance of Credit |
| **TEKS Student Expectations** | **130.132 (c) Knowledge and Skills**  (9) The student understands the fundamental principles of money.  (D) The student is expected to summarize the purposes and importance of credit |
| **Basic Direct Teach Lesson**  (Includes Special Education Modifications/Accommodations and  one English Language Proficiency Standards (ELPS) Strategy) | |
| **Instructional Objectives** | **Performance Objective**  Upon completion of this lesson, the student will be able to gain a better understanding of the purpose of credit and the importance of credit in our day-to-day lives.  **Specific Objectives**   * Understand the purpose of credit * Understand the importance of credit * Become a more educated consumer when it comes to credit and how it can help/hurt you * Devise a personalized credit game plan |
| **Rationale** | Good credit plays an important role in an individual’s financial life. Not only is it essential for obvious things like qualifying for a loan or getting a credit card, but also for less obvious things like getting cellular telephone service, renting an apartment, and even getting a job. This lesson demonstrates the purpose of credit and its importance in our day-to-day lives. |
| **Duration of Lesson** | 3-5 days |
| **Word Wall/Key Vocabulary**  *(ELPS c1a,c,f; c2b; c3a,b,d; c4c; c5b) PDAS II(5)* | **Terms**   * **Credit -** confidence in a purchaser's ability and intention to pay, displayed by entrusting the buyer with goods orservices without immediate payment. * **Credit Cards -** standard-size plastic token, with a magnetic stripe that holds a machine-readable code. Credit cardsare a convenient substitute for cash or check, and an essential component of electronic commerce and internet commerce. Credit card holders (who may pay annual service charges) draw on a credit limit approved by the card-issuer such as a bank, store, or service provider (an airline, for example). Cardholders normally must pay for credit card purchases within 30 days of purchase to avoid interest and/or penalties. * **Annual Fee -** a yearly fee charged by a credit card company each year for use of a credit card. This is a separate feefrom interest rate on purchases. While annual fees were once common, they largely disappeared in the '80s and '90s, remaining only on a few classes of cards, such as secured cards or those that offer airline frequent flier miles as a reward. * **Annual Percentage Rate (APR) -** the interest rate charged on credit card balances expressed in a standardized,annualized way. This rate is applied each month that an outstanding balance is present. * **Card Member Agreement -** provides the terms and conditions of a credit card account. This agreement is required byfederal law as a consumer disclosure. It also represents a binding agreement between card issuers and their customers. It must include the annual percentage rate, the monthly minimum payment formula, annual fees, and dispute resolution processes. Changes in the cardholder agreement can be made, with written notice, at any time by the issuer. Cardholders have the right to cancel their cards if they do not accept such changes in terms, and pay off existing balances under the previous account terms in such instances. * **Charge-Back -** a transaction returned through a credit card processing interchange by an issuer to an acquirer.Consumers may, under certain circumstances, dispute a purchase made from a merchant and cause a charge-back. A transaction also may be returned because it was noncompliant with the merchant account rules. Sometimes spelled chargeback. * **Credit Line -** the amount of money that can be charged to a credit card account. The size of a credit line, and howmuch of it has been borrowed, has a large influence on consumer credit scores. Low credit utilization -- that is, a credit line on which little has been borrowed -- leads to a higher credit score. Credit line is also known as a credit limit. * **Due Date -** Credit card bills have a due date. If your credit card payment does not arrive -- and get posted -- by thedue date, you will be charged a late fee. It's important for credit cardholders to watch their payment due dates, since they sometimes change. Some credit card issuers allow their customers to set their own due dates. * **Finance Charge -** the total cost of borrowing, including interest and fees, expressed in a dollar amount. * **Fixed APR -** a rate that does not change throughout the year, unlike an introductory APR that change after a specificperiod of time. The credit card reform law President Obama signed in May 2009 changed the rules for cards advertised as having fixed rates. Previously, fixed rates could be changed with as little as 15 days’ notice. Under the reform law, fixed rates must remain fixed for at least a year, and then can be raised with 45 days’ notice to consumers. * **Grace Period -** the time during which you can pay your credit card bill without having to pay interest. TheCredit CARD Act of 2009 requires that if issuers have grace periods, they must last at least 21 days. The grace period usually applies only to new purchases. Most credit cards do not give a grace period for cash advances and balance transfers; instead, interest charges start right away. * **Minimum Finance Charge -** You will be charged a minimum finance charge if the calculated amount of your financecharge is less than the minimum finance charge set by your credit card company for a billing cycle. For example, your finance charge may be calculated to be $0.35 but if the company's minimum finance charge is $0.50, you'll pay $0.50. A minimum finance charge applies only when you must pay a finance charge -- that is, when you carry over a balance from one billing cycle to the next. Not to be confused with minimum payment. * **Minimum Payment -** the lowest amount of money that you are required to pay on your credit card statement eachmonth. See your credit card "terms and conditions" document to see how your credit card's minimum payment is calculated. Until 2004, minimum payments were as low as 2 percent, which meant that any large balance could take decades to pay off, if only the minimum payment was made. Under pressure from federal banking regulators, card issuers have in recent years ramped up the required minimum payment. The industry standard is now to calculate the minimum in one of two ways: either 3 percent to 5 percent of the total balance due, or, all fees and interest due that month, plus 1 percent of the principal amount owed. * **Over-the-limit Fee -** A fee charged when your balance goes over your credit limit (also known as over the limit fee).When cardholders attempt to make purchases that will put them over their credit limit, card issuers used to routinely decline the transactions. In recent years, many card issuers changed their policies and automatically enrolled consumers in programs that allowed the transaction, but then added hefty fees. The Credit CARD Act of 2009 ended the practice of automatically enrolling consumers into over-limit fees, and requires that credit card issuers give account holders the option to opt-in to over-limit fees. Without the consumer's consent, they cannot charge over-limit fees. The act also forbids issuers from charging a fee higher than the amount a consumer is over the limit. * **Schumer Box -** is named for the then-chairman of the Senate Banking Committee that passed landmark consumerprotection legislation, Sen. Charles Schumer. This standardized disclosure "box" features relatively consistent terms and conditions for credit card offers, which allows consumers to compare cards in a consistent way. Specific terms and conditions such as purchase and cash advance interest rates, annual fees and rate calculation methods are required to be spelled out for consumers in conjunction with all new account solicitations. * **Secured Credit Cards -** Secured credit cards require collateral -- usually a cash deposit with the issuing institution --for approval. They are designed for people with no credit or poor credit. Some secured card marketers load these cards with high fees and unfavorable terms. * **Terms and Conditions -** the common name for the document in which credit card issuers describe in detail theirpractices. After a consumer applies for a credit card and receives it in the mail, the first use of the card turns the terms and conditions into a legal contract. * **Universal Default -** a common practice among credit card issuers that allows them to increase cardholders' interestrates for any change in risk profile with any lender. Under universal default, credit cardholders who fail to make timely payments to other creditors -- such as other credit card issuers, utilities, car lenders, landlords or mortgage lenders -- can see their rates raised by other creditors, even if they were never late in paying those other creditors. * **Unsecured Credit Cards -** the most common type of credit cards. They are not secured by collateral. That means thatunlike secured loans, such as mortgages or auto loans, unsecured credit cards are not directly connected to property that a lender can seize if the cardholder fails to pay. Issuers of unsecured cards must make use of other means -- such as the courts or garnishment -- to collect unpaid debts. Customers qualify for unsecured cards based on their credit history, their financial strength, and their earnings potential. * **Variable Interest Rate -** With variable-rate cards, your APR (annual percentage rate) can change. Usually, the rate istied to another rate called an index. Also known as a floating rate. In the United States, most credit cards have variable rates, and most of them are pegged to one such index, the prime rate. The prime rate, in turn, moves in lock step with an interest rate set by the Federal Reserve called the federal funds rate. So, if you see a headline that says, "Fed raises interest rates" it means your cost of carrying a balance on your credit card likely just went up. In your credit card terms and conditions document, the variable rate is often stated as an index plus a margin. For example, your document might say your rate is "Index + 10.99 percent." If the prime rate is your index and is at 4 percent, your card's interest rate is 14.99 percent. * **Equifax -** a consumer credit reporting agency in the United States, considered one of the three largest American creditagencies along with Experian and TransUnion. * **Experian -** formerly known as CCN Systems, is a global credit information group with operations in 36 countries. * **TransUnion -** the third largest credit bureau in the United States, which offers credit-related information to potentialcreditors. |
| **Materials/Specialized Equipment Needed** | **Materials Needed:**   * Bowl (or something to put the cards in from which to draw)   **Equipment/Software Needed**   * Computers * Internet * Word processing program * Spreadsheet program * Your choice of program to create a flyer |
| **Anticipatory Set**  (May include pre-assessment for prior knowledge) | * Ask students to brainstorm situations when it is okay to use credit to make a purchase/purchases. * Ask students to brainstorm situations when it isn’t okay to use credit to make a purchase/purchases. |
| **Direct Instruction \*** | 1. Introduction – To help students gain a better understanding of credit, the good and bad of it, and how to keep it in the ‘good column’ for them.    1. Why were you doing this assignment?    2. Need to know terms    3. Use the provided objective and terms by method of choice. You may want to look around and find some online information that could lead to other discussions that go along with this subject.   **ASK:** How can credit help you?  **ASK:** How can credit hurt you?  **ASK:** Why do you think credit card companies were established?  **ASK:** Do you know when the first credit card company was established?  **ASK:** Do you see yourself using credit in the future?  **ASK:** If you answered ‘yes’ to using credit in the future, in what circumstances would you use it?  **ASK:** Can you tell if a person has used credit to get their possessions?  **ASK:** At what point, if you used credit, would you stop? Like…what is the maximum amount of credit debtyou would be willing to accumulate?  **ASK:** Why did you pick that dollar amount?  **ASK:** Can you live life without ever using a credit card?   1. Guided Practice    1. Find an article online to print out for students to read to themselves or out loud.    2. Hand out article for reading    3. Have students point out at least one piece of information they didn’t know 2. Independent Practice    1. Debt Calculator    2. Debt Scenario Tally Sheet    3. Get students set up with the information they will need to do this activity (download and print your choice of debt calculator and debt scenario tally sheet). You may want to go through the first one, and then let them do the others on their own. 3. Independent Practice    1. My Debt Free Life Brochure or Flyer (sample provided). Suggestions on what to include:       1. An appropriate title       2. Credit terminology       3. The big three credit bureaus (their history, their data, etc.)       4. Graphics       5. Three instances credit can help       6. Three ways credit can hurt       7. Three important points they remember from the lesson, stats regarding credit debt among American/20-somethings/families       8. A quote, etc.    2. Get students started on how to put together their own instructional manual on how to remain debt free for life. Give them category suggestions, format suggestions, break it into stages (Stage 1-Gather Data, Stage 2-Organize Data, Stage 3-Format Data). Depending on which you choose for them to do (brochure or flyer), the time involved will be different. A brochure is more involved and takes longer than a flyer. 4. Summary    1. Restate the objectives and check for understanding   *Individualized Education Plan (IEP) for all special education students must be followed. Examples of accommodations may include, but are not limited to:*   * This lesson may be modified to accommodate your students with learning differences by referring to the files found on the Career & Technical Special Populations page of this website (http://cte.unt.edu/). |
| **Guided Practice \*** | Handout one article on debt for students to read to themselves or aloud. Have students point out one piece of information they didn’t know.  Have students download (or you provide a hard copy handout) of the Time Value of Money Worksheet. Go over directions and then get them started in the right direction on how to fill in the required information. |
| **Independent Practice/Laboratory Experience/Differentiated Activities \*** | Students will work on their own (or with partners/in groups) to complete the debt scenario activity. |
| **Lesson Closure** | We are doing this so students will be able to see the good and bad of credit, to help them become familiar with credit terminology, and to help them devise an individualized plan of action (attack) on credit.  To extend the lesson, you can have students go home and see if they can find ‘real life’ examples (newspaper articles, online articles, news stories, know someone) who has had either a good or bad experience with credit and have them email you that information. |
| **Summative / End of Lesson Assessment \*** | **Formal Assessment**  Students will create a ‘My Debt Free Life’ Brochure or Flyer (teacher choice). A rubric is provided along with some guideline suggestions. |
| **References/Resources/**  **Teacher Preparation** |  |
| **Additional Required Components** | |
| **English Language Proficiency Standards (ELPS) Strategies** | **English Knowledge and Skills**   * 110.31 (b) (1). Reading/Vocabulary Development. Students understand new vocabulary and use it when reading and writing. * 110.31 (b) (11). Reading/Comprehension of informational text/procedural texts. Students understand how to glean and use information in procedural texts and documents. |
| **College and Career Readiness Connection[[1]](#footnote-1)** |  |
| **Recommended Strategies** | |
| **Reading Strategies** |  |
| **Quotes** |  |
| **Multimedia/Visual Strategy**  **Presentation Slides + One Additional Technology Connection** |  |
| **Graphic Organizers/Handout** |  |
| **Writing Strategies**  **Journal Entries + 1 Additional Writing Strategy** |  |
| **Communication**  **90 Second Speech Topics** |  |
| **Other Essential Lesson Components** | |
| **Enrichment Activity**  (e.g., homework assignment) | To extend the lesson, you can have students go home and see if they can find ‘real life’ examples (newspaper articles, online articles, news stories, know someone) who has had either a good or bad experience with credit and have them email you that information. |
| **Family/Community Connection** |  |
| **CTSO connection(s)** | Business Professionals of America  Future Business Leaders of America |
| **Service Learning Projects** |  |
| **Lesson Notes** |  |

1. Visit the Texas College and Career Readiness Standards at <http://www.thecb.state.tx.us/collegereadiness/CRS.pdf>, Texas Higher Education Coordinating Board (THECB), 2009. [↑](#footnote-ref-1)