<u>UNIT 17 - CREDIT (14 Days)</u>

Understanding credit and the impact of its use and misuse are crucial to financial health.

<u>EPF.13 The student will demonstrate knowledge of credit and loan functions by</u>
a) ***evaluating the various methods of financing a purchase***
(BUS6120.070*)*

Days 1 and 2 Credit: Is it free? Is it worth it?

<u>EPF.13 The student will demonstrate the knowledge of credit and loan functions by</u>
e) comparing terms and conditions of various sources of consumer credit
(BUS6120.074*)*

Day 1 Where is credit obtained?

<u>EPF.13 The student will demonstrate the knowledge of credit and loan functions by</u>
c) identifying qualifications needed to obtain credit
g) explaining the need for a good credit rating
(BUS6120.072*)* (BUS6120.076*)*

Day 1 Creditworthiness and credit ratings
Day 2 Why credit ratings matter and what you can do to improve them
Day 3 Why credit ratings matter and what you can do to improve them, *continued*

<u>EPF.13 The student will demonstrate the knowledge of credit and loan functions by</u>
b) analyzing credit card features and their impact on personal financial planning
(BUS6120.071*)*

Day 1 Understanding your credit cards

<u>EPF.13 The student will demonstrate the knowledge of credit and loan functions by</u>
d) identifying basic provisions of credit and loan laws
(BUS6120.073*)*

Day 1 and 2 Consumer loan laws

<u>EPF.13 The student will demonstrate the knowledge of credit and loan functions by</u>
f) identifying strategies for effective debt management, including sources of assistance
(BUS6120.075*)*

Day 1 Managing your debt

<u>EPF.13 The student will demonstrate the knowledge of credit and loan functions by</u>
h) comparing the costs and conditions of secured and unsecured loans
(BUS6120.077*)*

Day 1 What is a secured loan and what does it cost? What is an unsecured loan and what does it cost?

<u>EPF.13 The student will demonstrate the knowledge of credit and loan functions by</u>
i) comparing the types of voluntary and involuntary bankruptcy and the implications of each
(BUS6120.078*)*

Days 1 and 2 Understanding bankruptcy

Evaluation Day

<u>EPF.13 The student will demonstrate knowledge of credit and loan functions by</u>
a) ***evaluating the various methods of financing a purchase***

Day 1 and Day 2 – Credit: Is it free? Is it worth it?

Content Knowledge

Credit is not free. Before borrowing money, consumers need to determine what the costs are and whether the benefits of obtaining credit are greater than those costs.

Vocabulary
Closed-end Credit – A loan where the entire amount is loaned at the beginning and all repayment and interest must be repaid by a specific date.
Collateral - Something of value (often a house or a car) pledged by a borrower as security for a loan. If the borrower fails to make payments on the loan, the collateral may be sold; proceeds from the sale may then be used to pay down the unpaid debt.
Installment Plan – A credit system where payment for goods is made with fixed payments over a period of time.
Layaway – A system where period payments are made on goods and upon final payment, the goods are delivered.
Open-end Credit – A loan where a total amount is set and the borrower can use any or the entire loan, repaying it over time, also known as a line of credit.
Rent-to-Own – An arrangement whereby consumers rent something (often furniture), making regular rental payments, and become owners of the rented object(s) after a specified period of time--sometimes automatically and sometimes with an additional payment. A legal business but very costly to consumers.
Revolving Credit – A credit system whereby the borrower can make periodic purchases and payments.
Secured Loan – Credit with collateral (for example, a house or a car) for the lender.
Unsecured Loan – Debt without collateral; credit card debt, for example.

Virginia Board of Education Framework
Some methods of financing a purchase are

- Installment plan
- Layaway
- Secured and unsecured loans

Some sources of financing are

- Retail stores
- Banks and credit unions
- Finance companies
- Pawn shops
- Payday loans
- Title loans
- Private lenders

Some types of credit are

- Open-end credit
- Closed-end credit
- Service credit
- Revolving credit
- Secured loans
- Unsecured loans

To use a decision model to determine which type of financing would be best, first establish the criteria.

The opportunity cost of using credit is the resulting decrease in future purchasing power; the individual will have less money to spend in the future as some of it will go toward repaying the loan or paying a credit card bill.

Teaching Tips

1) Discuss with students that most people who use credit, pay interest to use it. There are a few cases in which interest is not paid:
    a. People who pay off their credit card bill every month pay no interest, though there is usually an annual fee for the card.
    b. Layaway does not include payment of interest (and technically is not credit, since one does not have the use of the goods until they are paid off), but may involve restocking fees if the consumer changes his/her mind, and cash refunds may not be available. (See Consumer Reports article on layaway below.)
    c. Merchants often offer, for example, "90 days same as cash", and as long as one pays off the balance within the specified number of days, there is no cost to the credit—however, there may be traps for the unwary in the form of additional fees. (Take a look at the MSNBC article below).

2) Conclude with a discussion of the benefits of credit in addition to allowing one to have the immediate use of the items purchased on credit. These can include rewards for using a credit card, the ability to use the card in an emergency, dispute resolution procedures that can allow one to avoid payment for a defective product or service, and the building of a credit history towards obtaining a loan for a car or a mortgage. In preparation for the next day's lesson, leave students with the following question: "Can anyone get credit?"

3) Continue with an explanation of the rest of the types of credit listed in the framework. Make a chart of advantages and disadvantages of each type. Come back to the original point that use of almost any form of credit costs more than paying in full up front. The first thing a consumer needs to determine is whether to use credit at all. Is having the item at all, or having it now rather than later, worth the cost of what you'll pay in interest and fees? (The lessons listed below contain scenarios that students use to decide whether the situation is an appropriate occasion for the use of credit.)

4) The budget needs to be the touchstone used in deciding whether any nonemergency use of credit can be repaid within a reasonable amount of time as to avoid overpaying for the item. Ask: How long will it take to repay, given the amount one can afford to spend within the item's budget category? If one takes advantage of a sale by using a credit card, but is unable to pay off the credit card immediately, the interest cost needs to be added to the sale price to see whether one is actually benefiting from the sale or in fact overpaying.

Lessons and Resources

Financial Fitness for Life 9-12 Lesson 11: What is Credit?

Econedlink Lesson. Credit for Beginners
https://www.econedlink.org/resources/credit-for-beginners/

Online reading
Consumer Reports article. "Layaway Grows in Popularity, But There Are Risks."
https://www.consumerreports.org/cro/news/2011/11/layaway-grows-in-popularity-but-there-are-risks/index.htm

MSNBC article. "P2P payments: How To Protect Yourself From Scammers."
https://www.nbcnews.com/better/lifestyle/use-payment-apps-venmo-zelle-cashapp-here-s-how-protect-ncna1015851

<u>EPF.13 The student will demonstrate the knowledge of credit and loan functions by</u>
e) comparing terms and conditions of various sources of consumer credit
(BUS6120.074*)*

Day 1 - Where is credit obtained?

Content Knowledge

Credit is available from retailers, banks, credit unions, finance companies, payday loan and title loan companies and pawnbrokers. Terms offered by the various sources need to be compared to evaluate whether obtaining credit there is desirable.

Virginia Board of Education Framework
Consumers of credit should compare

- Percentage rates
- Annual fees
- Transaction fees
- Finance charges
- Risk of losing assets.

Consumers should consider costs and benefits of various sources, including

- Retailers
- Banks
- Credit unions
- Finance companies
- Risk-based lending companies (e.g., payday loan services, pawnbrokers, title loan services).

Teaching Tips

1) Based on their study of credit card statements, students should be able to offer some of the characteristics that determine the cost of a loan, including interest rate, annual fees, and late fees and penalties. Once a chart is developed, students can research current terms for loans from the various sources, either online or by obtaining information from local businesses.

2) Ask: Have you heard of "rent to own"? Is that a form of credit? *(Yes, and an expensive one: consumers may pay two or three times the retail price of an item. See FTC report and Consumer Reports article on rent to own below.)* What about pawn shops? *(Many students may have seen television shows involving pawn shops.)* Explain how pawn shops work.

2) Encourage your students to compare loans on the basis of the annual percentage rate (APR) and finance charge. Under the federal Truth in Lending Act, lenders must disclose

these figures. Many people compare loans on the basis of the monthly payment. The monthly payment becomes lower if the repayment period is longer. Unfortunately, this also increases the finance charge. Avoid this confusion by determining the principal and repayment period first and then shop for the lowest APR.

Lessons and Resources

Personal Decision Making : Focus on Economics Lesson 10: Consumer Credit: Buy Now, Pay Later, and More Also online at: https://www.unomaha.edu/college-of-business-administration/center-for-economic-education/teacher-resources/6-8/consumer-credit-buy-now-pay-later.pdf

Federal Trade Commission report on rent to own
http://www.ftc.gov/reports/renttoown/rtosummary.shtm

Consumer Reports article on rates of interest for rent-to-own
http://pressroom.consumerreports.org/pressroom/2011/06/rent-to-own-services-can-have-equivalent-interest-rates-as-high-as-311-percent-.html

EPF.13 The student will demonstrate the knowledge of credit and loan functions by
c) identifying qualifications needed to obtain credit
g) explaining the need for a good credit rating

Day 1 - Creditworthiness and credit ratings

Content Knowledge

Students should understand that lenders' decisions whether to grant credit are in some respects just an extension of decisions we make as individuals about whether to lend our money or property. The characteristics that make one a reliable bet as a borrower can be summed up in five Cs: Capacity, Capital, Character, Collateral and Conditions. Sometimes these five characteristics are combined to create three – Capacity, Character and Collateral. Capital is usually part of Collateral and Conditions would be included under Capacity. If borrowers don't meet all these characteristics then they pose a greater risk to the lender, and will pay higher rates of interest to obtain credit.

Vocabulary
Annual Fee – The yearly charge for having a credit card or credit account.
Capacity – In the context of credit transactions, capacity is one of the Cs of Credit. It is an indicator of how creditworthy a prospective borrower is likely to be, as determined by the borrower's current and future earnings relative to current debt. High earnings and low debt, for example, indicate a strong capacity to make payments on the loan in question.
Capital – In the context of credit transactions, capital is one of the Cs of Credit. It is an indicator of how creditworthy a prospective borrower is likely to be as determined by the borrower's current financial assets and net worth.
Character – In the context of credit transactions, character is one of the Cs of Credit. It is an indicator of how creditworthy a prospective borrower is likely to be, as determined by the borrower's handling of past debts and his or her stability in jobs and residences.
Collateral – Something of value (often a house or a car) pledged by a borrower as security for a loan. If the borrower fails to make payments on the loan, the collateral may be sold; proceeds from the sale may then be used to pay down the unpaid debt.
Conditions – The general state of the economy. In periods of slow economic activity, lenders may be reluctant to lend out of fear that the borrower will be unable to pay.
Finance Charges – The total cost of credit, including interest and transaction fees.
Interest Rates – The price paid for using someone else's money, expressed as a percentage of the amount borrowed.
Transaction Fees – A charge for making a transaction. Transaction fees may be a percentage of the total amount or a flat rate regardless of size.

Virginia Board of Education Framework
13c: Character, capacity, capital, conditions and collateral are factors that determine creditworthiness.

Character refers to a borrower's history of paying obligations.

Capacity refers to one’s ability to repay and is usually measured by current income and level of outstanding debt.

Capital refers to savings and other assets one can use to repay.

Conditions refer to other circumstances that may impact the ability to obtain credit (e.g., economic conditions).

Collateral refers to assets the borrower has that could be taken by the lender if the borrower fails to repay.

13g: Credit reporting agencies have established formulas to produce credit scores for each borrower.

Credit ratings are based on information in a person’s credit record, including income, payment history, employment record, and other personal factors.

Teaching Tips

1) Begin by asking the class about lending and borrowing in their everyday lives. Have they ever regretted lending money or something else to a friend or relative? Did it affect their willingness to lend again? If they had a bad experience, did they put more restrictions on lending to the same person a second time? Are there any parallels to the interactions between institutional lenders and their customers?

2) Ask: Can anyone qualify for a loan? Why not? What do lenders consider when making a decision whether to extend credit? The teacher should spend a considerable amount of time on the Cs of credit. Introduce the concept of credit ratings and credit score.

3) Ask: Is it simply a matter of qualifying or not qualifying for credit? If one does not qualify for one type of credit, are there alternatives*? (Often there are –more expensive alternatives, such as payday loans.)* Remind students about what they learned about risk and reward in studying types of investments. If lenders view consumers as a greater risk, they will demand higher interest to compensate for the additional risk. When the characteristics are better, the risk of making the loan will be lower--which often results in a lower interest rate. The teacher may want to use the video on the 5 Cs of Credit below as a summation.

Lessons and Resources

Financial Fitness for Life Grades 6-8 Lesson 16: Establishing Credit
Financial Fitness for Life 9-12 Lesson 12: Making Credit Choices

Hands On Banking Topic 4 Lesson 2: What is Credit? (addresses the 5 Cs)
http://www.handsonbanking.org/en/resources/Adults_4_WhatIsCredit.pdf

Video
5 Cs of Credit
http://www.youtube.com/watch?v=Tw3wHYeASWU

Interactive
Developing Good Credit Habits
https://www.econedlink.org/resources/developing-good-credit-habits/

Day 2 - Why credit ratings matter and what you can do to improve them

Content Knowledge

Many people don't know how to access their credit rating, or why they should.

Vocabulary
Equifax – One of three credit reporting agencies.
Experian – One of three credit reporting agencies.
TransUnion – One of three credit reporting agencies.

Virginia Board of Education Framework
13.g: Making payments (e.g., bills, rent) on time helps an individual establish and maintain good credit.

Good credit scores may enhance one's ability to borrow and the interest rate charged.
Credit scores may also help decrease one's insurance rates and improve employment options.

Poor credit can adversely affect one's ability to get a job, rent an apartment, obtain a car loan, obtain a security clearance—and may even bring an increase in car insurance.

Individuals should access their own credit reports before applying for credit or when denied credit.

To correct errors in one's credit report, an individual should tell the consumer reporting company, in writing and with supporting documents, what information is inaccurate.
The consumer reporting company then must investigate the issue and correct the error.

Teaching Tips

1) Ask students if they have seen any commercials advertising "free credit reports." Have them go online to determine if the reports from these sites are actually free. Then have

students access the web page on Credit Reporting Agencies listed in the Lessons and Resources. Draw attention to the fact that everyone is entitled to one free credit report from each agency each year. Students should note they don't have to pay for a credit report.

2) Break students into three groups and have each group report back on one of the three agencies. Be sure to have them also research how to report an error. Identity theft comes into this topic in that when identity theft has occurred, information will appear about transactions that were not entered into by the identity theft victim. Review what they learned in Unit 15 about how to avoid becoming a victim of identity theft.

3) Discuss the fact that employers, landlords, insurers, and auto finance companies are all interested in credit scores. Security clearances can also be affected.

Lessons and Resources

Financial Fitness for Life, 9-12, Lesson 13 - Credit Reports and Credit Scores.

Econedlink Lesson, Building Good Credit Habits
https://www.econedlink.org/resources/building-good-credit-scores/

Online
Annual Credit Report website
https://www.annualcreditreport.com/cra/index.jsp

Day 3 - Why credit ratings matter and what you can do to improve them, *continued*

Content Knowledge

If there's an error, it can cost you. You can end up paying more for a loan or you may not even receive a loan based on erroneous information on your report.

Teaching Tips

1) This is an extension of the previous day's lesson. Have student groups continue their report, focusing on how errors need to be corrected.

2) Students can also research and discuss credit protection businesses and explain whether they believe these can be valuable for consumers.

EPF.13 The student will demonstrate the knowledge of credit and loan functions by
b) analyzing credit card features and their impact on personal financial planning

Day 1 - Understanding your credit cards

Content Knowledge

The information on a credit card is not just there to confuse. It is important information about which the cardholder needs to be aware.

Vocabulary
Annual Percentage Rate (APR) – The percentage of the principal of a loan to be paid as interest in one year. Differs from an add-on rate in that an APR is calculated on the declining balance of the loan. The Truth in Lending Act requires lenders to disclose APRs to prospective borrowers.
Compound Interest – Interest that is earned not only on the principal but also on the interest already earned.
Credit Line – The maximum amount of money that will be extended to a person by a financial institution or credit-card issuer. Also known as credit limit.
Float – deferred payment.
Minimum Payments – the minimum amount a credit cardholder is required to repay each billing period on an open balance.
Penalty Charges – Additional charges to an account for late payment, missed payment or exceeding the credit limit.
Promotional Incentives – Rates or payment options used to induce consumers to apply for certain types of credit cards. Included are low or zero-interest rate cards (sometimes called teaser rates) that last only for a short period. Also used are "no interest" if paid within a certain time period.
Rewards – Points or cash-back offers that can be used to redeem for products. Airlines, hotels and some retailers offer rewards. These rewards often raise the total cost of a card in terms of annual fee or a higher interest rate.

Virginia Board of Education Framework
Consumers should consider the impact on personal financial planning of credit card features, such as

- annual percentage rate (APR)
- annual fees
- compound interest
- penalty charges
- credit line
- promotional incentives
- account disclosure statement
- minimum payments

To use a decision model in selecting a credit card, the consumer needs to decide what features are most important in order to establish criteria.

The benefits of using credit cards include

- float (deferred payment)
- convenience
- compatibility to conduct online transactions
- rewards
- purchase protection
- fraud protection
- payment over time
- establishing credit

The costs of using credit cards include

- interest
- fees (e.g., late, annual, over-the-limit)
- risk of identity theft
- risk of borrowing beyond the ability to repay
- length of time to pay off the balance when paying only the minimum payment.

Teaching Tips

1) The teacher should list the types of charges involved in using credit. Find sample credit card statements and discuss annual fee, interest paid, and transaction fees and show how the total compares to the rate of interest paid (and advertised). The teacher may want to let students know about current efforts on the part of consumer protection advocates to simplify credit card statements (see the Consumer Financial Protection Bureau homepage listed below).

2) One way to teach this lesson is to bring in "junk mail". Compare rates, fees, charges, and rewards using a table or PACED grid. Ask students which card they think is the "best deal" and ask them to explain their reasoning. Students can also view the information at http://www.creditorweb.com/ and do there own research to "fact check" the information and see how reliable they find it to be.

3) Remind students what they learned about compound interest in Unit 11. The same compounding that benefits savers, hurts borrowers who make minimum payments. Using the Minimum Payment Calculator below, show students the true cost (and time to pay off) a purchase of a high-end computer (iPad) using minimum payments. Note the difference in cost and ask students what else could be done with the difference (what is the opportunity cost of the extra spending).

Lessons and Resources

Financial Fitness for Life Grades 9-12 Lesson 15: Shopping for a credit card
Learning, Earning and Investing Lesson 14: Credit: Your Best Friend or Your Worst Enemy

Econedlink Lesson, The Credit Card Mystery
https://www.econedlink.org/resources/the-credit-card-mystery/

Video curriculum
Risky Business: What Every Teenager Needs to Know About Living Smart part 3, Using Credit Wisely. Activity 3.3 can be found online: Analyzing a credit card statement,
http://riskybusiness.councilforeconed.org/resources/wlg/RiskyBusiness.3.3r.pdf

Online
Consumer Financial Protection Bureau homepage – efforts to simplify credit card statements
http://www.consumerfinance.gov/

Minimum Payment Calculator
http://www.bankrate.com/calculators/managing-debt/minimum-payment-calculator.aspx

Consumer Financial Protection Bureau article on shopping for a credit card:
http://www.consumerfinance.gov/how-do-i-shop-for-a-credit-card/

EPF.13 The student will demonstrate the knowledge of credit and loan functions by
d) identifying basic provisions of credit and loan laws

Day 1 and Day 2 - Basic consumer loan laws

Content Knowledge

When lenders, landlords, merchants or collection agencies fail to treat consumers properly, there are remedies for the consumer—but unless students are made aware, they can't pursue those remedies. These laws provide significant consumer protection and outline responsibilities.

Vocabulary
Fair Credit Billing Act – A federal law that requires creditors to mail out bills at least 14 days before payment is due and also establishes procedures for resolving billing errors on credit accounts.
Fair Credit Reporting Act – A federal law governing the activities of credit bureaus and creditors. It requires creditors to furnish accurate and complete information to borrowers; it also establishes a process consumers may use to correct inaccuracies in credit reports.
Fair Debt Collection Practices Act – A federal law that bars collection agencies from using threats, harassment or abuse in their efforts to collect debts.
Credit Card Accountability, Responsibility and Disclosure Act (CARD) – An act of Congress that establishes responsibilities of card issuers and protections for cardholders regarding interest rates, grace periods, pay-off times and other information.
Equal Credit Opportunity Act – an act of Congress that makes it unlawful for a credit grantor to discriminate on the basis of race, color, religion, national origin, sex, marital status, or age (provided the applicant is legally able to enter into a contract).

Virginia Board of Education Framework
Some laws that affect credit and loans

- Fair Credit Reporting Act- regulates consumer reporting agencies and the use of consumer credit information
- Fair Credit Billing Act- protects consumers against inaccurate and unfair credit billing and credit card practices and provides consumers with a mechanism for addressing billing errors
- Equal Credit Opportunity Act- prohibits creditors from discriminating against a credit applicant on the basis of race, color, religion, national origin, sex, marital status, or age or because the applicant receives public assistance
- Fair Debt Collection Practices Act- prevents abusive and deceptive practices by debt collectors
- Credit Card Accountability, Responsibility, and Disclosure (CARD) Act- bans unfair rate increases and unfair fees, requires that credit card contract terms be presented to consumers in clear language, and ensures accountability from credit card issuers and regulators

Teaching Tips

1) Break the students into five groups and have each group research one of the consumer protection laws listed above. Then have each group in turn report to the class.

Lessons and Resources

Financial Fitness for Life Grades 9-12 Lesson 18: Consumer Credit Protection

Reading
What the Credit Card Act Means to You
http://bucks.blogs.nytimes.com/2010/02/22/what-the-credit-card-act-means-for-you/

Online
Consumers Guide to Credit Cards
http://www.federalreserve.gov/creditcard/

It's Your Paycheck Curriculum - lessons
http://www.stlouisfed.org/education_resources/paycheck.cfm

Fair Credit Billing
http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre16.shtm

<u>EPF.13</u> <u>The student will demonstrate the knowledge of credit and loan functions by</u>
f) identifying strategies for effective debt management, including sources of assistance

Day 1 - Managing Your Debt

Content Knowledge

Income and assets will determine how much debt a consumer can manage. When consumers take on too much debt, there are sources of assistance.[1]

Virginia Board of Education Framework
Some strategies for effective debt management include

- Maintaining accurate financial records
- Making payments on time to avoid penalties and other debt problems (e.g., liens, foreclosures, garnishment, repossessions, evictions)
- Using early payoffs, if advantageous
- Ensuring against identity theft

Signs that a consumer is getting into credit trouble include

- Inability to pay bills
- Making only the minimum payment
- Using one credit card to pay other credit card balances
- Receiving collection agency calls.

When considering sources of assistance for debt management, individuals should

- Distinguish between discrimination and legitimate credit denial
- Ensure the right to appeal a credit denial
- Apply knowledge of laws' protection of consumers who have credit problems
- Review the ramifications of bankruptcy
- Check telephone directories and internet sites for credit counseling services and commercial debt-adjustment firms that can help clients address credit problems, manage debt and rebuild credit
- Evaluate sources for reliability and effectiveness

Teaching Tips

1) Have students answer the following questions based on their research: What steps are necessary to successfully manage debt? How should current debt be prioritized? How do you focus on multiple debts? The teacher can have students examine the two sources listed in the Lessons and Resources, or have them find their own sources by entering "debt repayment strategies" or "debt management strategies" in a search engine.

2) Have students look for “debt counseling” resources. Have students seek out information on several organizations and compare the organizations using a PACED decision grid. Students should explain their alternatives, criteria, evaluation, and eventual choice.

Lessons and Resources

Financial Fitness for Life Grades, 9-12, Lesson 13 - Credit Reports and Credit Scores.

Capstone: Exemplary Lessons for High School Economics – Teacher’s Guide Unit 3 Lesson 18: Credit Management

Online
9 Smart Debt Management Strategies
http://www.bankrate.com/finance/personal-finance/9-smart-debt-strategies-in-2009-1.aspx

Payment Push
http://www.bankrate.com/bm/news/cc/20020405b.asp

Knee Deep in Debt?
http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre19.shtm

15 Signs of Serious Debt Trouble
http://www.bankrate.com/finance/debt/15-signs-of-serious-debt-trouble.aspx

<u>EPF.13 The student will demonstrate the knowledge of credit and loan functions by</u>
h) comparing the costs and conditions of secured and unsecured loans

Day 1 - What is a secured loan and what does it cost? What is an unsecured loan and what does it cost?

Content Knowledge

Secured loans have different requirements than unsecured loans. Secured and unsecured loans should be analyzed with regard to the costs and conditions of the loan. Secured loan amounts are often larger, and the time to repay may be longer.

Virginia Board of Education Framework
A secured loan is one in which the borrower risks loss of an asset (e.g., automobile, house) if unable to repay.

An unsecured loan is made without the borrower offering any assets and is based on the borrower's credit rating alone.

Some costs and conditions to consider with secured and unsecured loans include

- Annual percentage rates
- Finance charges
- Monthly payments
- Annual rates
- Transaction fees
- Length of time to repay the loan
- Total amount required to pay off the loan
- Loss incurred should the loan not be repaid on time.

Teaching Tips

1) Draw a table with two columns where it can be seen by everyone. On one side, place secured loans. On the other side place unsecured loans. List the characteristics of a secured loan and an unsecured loan under the appropriate columns. Have students address size, time to repay, interest rate, and repossession at minimum. Have students suggest what types of loans might fit under each category and explain why. Include auto loans, mortgage loans, student loans, home equity loans, business loans, credit cards, personal loans. Ask students to explain from the lender's perspective why each of these loans might be secured or unsecured.

2) Have students research the economic concept of micro-financing or micro-lending to help them understand the difference between a secured loan and an unsecured loan. Discuss how the provision of unsecured loans to low-income, small-scale entrepreneurs in the developing world

has improved the business prospects and quality of life for many desperately poor people around the world.

Lessons and Resources

Lesson and video
Microfinance and Entrepreneurship – The Ascent of Money
http://www.pbs.org/wnet/ascentofmoney/lessons/microfinance-and-entrepreneurship/lesson-overview/32/

EPF.13 The student will demonstrate the knowledge of credit and loan functions by
i) comparing the types of voluntary and involuntary bankruptcy and the implications of each

Day 1 and Day 2 - Understanding bankruptcy

Content Knowledge

Bankruptcy is a very serious step with serious repercussions. People need to understand when it may be appropriate and recognize that it should not be entered into lightly.

Vocabulary
Bankruptcy – A process whereby a debtor may liquidate or adjust their debts. Bankruptcy may be considered when an individual's debts exceed their assets.

Virginia Board of Economic Framework
The two most common types of bankruptcy for individuals are Chapter 7 bankruptcy and Chapter 13 bankruptcy.

Chapter 7 is the chapter of the U.S. Bankruptcy Code providing for "liquidation" (i.e., the sale of a debtor's nonexempt property and the distribution of the proceeds to creditors.)

Chapter 13 is the chapter of the U.S. Bankruptcy Code providing for adjustment of debts of an individual with regular income. (Chapter 13 allows a debtor to keep property and pay debts over time, usually three to five years.)

In most cases, an individual files for bankruptcy voluntarily. However, creditors can force debtors into involuntary bankruptcy.

The most common causes of bankruptcy are
- illness or injury
- failure to plan and budget
- small business failure
- job loss
- impulse, emotional spending
- economic downturn

Bankruptcy generally affects one's ability to obtain credit for a period of time and may affect employment.

An attorney should be consulted for legal advice on when and how to file for bankruptcy.

Teaching Tips

1) The Lessons and Resources for this lesson require online access. As an alternative, the teacher may wish to reproduce or summarize material for the students. Break the students into three groups. Assign one group to the basics, one group to Chapter 7, and one group to Chapter 13. Have each group research their topic and report back to the class.

2) A local bankruptcy attorney or judge would make a great guest speaker.

Lessons and Resources

Your Credit Counts Challenge: Trainer's Guide Section 3: Managing Credit (part 3.14 only)

Online
Before You File for Personal Bankruptcy
http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre41.shtm

Bankruptcy Basics
http://www.uscourts.gov/FederalCourts/Bankruptcy/BankruptcyBasics.aspx
Chapter 7
http://www.uscourts.gov/FederalCourts/Bankruptcy/BankruptcyBasics/Chapter7.aspx
Chapter 13
http://www.uscourts.gov/FederalCourts/Bankruptcy/BankruptcyBasics/Chapter13.aspx

Khan Academy on chapter 7 bankruptcy
http://www.youtube.com/user/khanacademy#p/c/CADCB4565CFACEBF/7/-oW4M3vpuRM

Khan Academy on chapter 11 bankruptcy
http://www.youtube.com/user/khanacademy#p/c/CADCB4565CFACEBF/7/-oW4M3vpuRM

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