FINANCIAL LITERACY

LESSON 7-21 ▲ BANKING AND PERSONAL CREDIT

**LEARNING GOALS/OUTCOMES**

* Differentiate between ATM, debit card, checking account, savings account, money market account, and certificate of deposit.
* Define the risk and reward of using a credit card or loan to purchase items.

**MATERIALS NEEDED**

* **Student Handouts:**
* Money Vocabulary (Answer Key included in this lesson plan)
* True Cost of Borrowing Money (Answer Key included in this lesson plan)
* Journal Page

**CLASSROOM ACTIVITIES**

1. **Students consider the true cost of things.** Tell students they have likely heard the advertisement, “Some things in life are free, for everything else, there’s your credit card.”

Ask students to: (1) List everything that they have done in the past week that costs money, and (2) List everything that they did in the past week that didn’t cost money. Have them write their responses under two titles in their notebooks – FREE and NOT FREE.

Ask students to rethink the list that they think doesn’t cost anything. Often there are hidden costs. Have students name activities on the list that cost a one-time fee or that have hidden costs (example: walking = cost of shoes). Ask students to move those activities from the FREE to the NOT FREE column. Explain to students that many of the things they thought were free really aren’t – almost everything has a cost – sometimes they just can’t see it.

Refocus the classroom’s attention back to the list of activities you know cost money. Tell them there are other costs associated with the things they do. Ask the students to think about the costs associated with going to the movies. They may come up with ideas such as: the cost of transportation to the theater, the cost of gas, admission ticket costs, the cost of snacks, the opportunity costs (what you could have been doing instead).

Tell students that all things have a cost. For this reason, it is wise for people to get at managing their money, assuring they have the financial capacity to pursue whatever interests come their way.
2. **Students learn the language of banking and loans.** Tell students there are a lot of words used in the world of banking and credit. This first exercise is going to teach them some of that language. Put students into groups of four students. Distribute a copy of Money Vocabulary to each student. Ask students to answer the matching questions in groups. One student at a time proposes a match – students discuss and accept or reject as a group. After some discussion, review the right answers with students. The Answer Key is provided below.
3. **Students practice using the language of money.**  Ask students to stay sitting in their groups. Ask them to pretend they are an expert in the world of banking and lending. Ask them to create a single sentence that uses three or more of the Money Vocabulary words. The more words they use correctly in one sentence, the better! For example, a student may write, “I went to the ATM at my bank and obtained a balance on my account.” Once they have their sentence, the groups read their sentences to each other. Tell the group to select a nominee for best money sentence. End the exercise by having each group read their nominee sentence to the class. You or the class can pick the winning sentence.
4. **Students calculate the cost of borrowing money.** Put students into four groups. Place a copy of True Cost of Borrowing Money with each student. Ask one student to read the first scenario aloud to their group. The team calculates the cost of borrowing the money and then must reach consensus on whether to take the loan or not. After a few minutes, ask groups for their decisions. Repeat for all four scenarios. When all four are done, review the answers and have students fill out the calculation as you review each one. Encourage students to understand that taking a loan or not a judgment of how people spend their money. Borrowing is completely up to each individual, as long as they are informed about the real cost of borrowed money.
5. **Students discuss the impact of borrowing money.** Lead a group discussion on the following:
* Ask students why lenders don’t want to advertise the real cost of money.
* Ask students why people don’t save to purchase instead of borrowing to purchase.
* Having savings in a bank account earns interest for the saver. Borrowing money from a bank costs interest. What tips or ideas do students have to make interest work for you instead of against you?
1. **Students identify their own spending and saving habits.** Ask students to write answers to the following questions in their *Journal Page*.
* Are you a good saver or do you tend to spend all you have? Give an example
* Are you a good shopper or do you buy the first thing you see? Give an example.
* What kinds of products are you willing to borrow money to obtain?

**STUDENT PRODUCTS**

* **Completed *Journal Page*** on individual spending and saving habits

FINANCIAL LITERACY

LESSON 7-21 STUDENT HANDOUT

 MONEY VOCABULARY

Draw a line to connect the words to their definitions below:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **Account** |  | 1. Automated Teller Machine used to withdraw money.
 |
| **ATM** |  | 1. Record of money spent and remaining in account.
 |
| **Balance** |  | 1. Plan for the use of money.
 |
| **Bank** |  | 1. Amount of money remaining in an account.
 |
| **Bank Statement** |  | 1. Safe place to keep money.
 |
| **Budget** |  | 1. Financial account with a bank.
 |
|  |  |  |
| **Cash Advance** |  | 1. Bank account to write checks from. Does not earn interest.
 |
| **Check** |  | 1. A loan in your pocket. Must repay interest on balances.
 |
| **Checking Account** |  | 1. Card that pays money directly from a person’s checking account for purchases.
 |
| **Credit Card** |  | 1. Paper directing the bank to pay money from your account.
 |
| **Credit Check / Credit Score** |  | 1. A way to access money prior to earning it. (ex: payday loan)
 |
| **Debit Card / Bank Card /** **Check Card** |  | 1. A number bankers use to determine how likely money will be repaid if loaned to an individual.
 |
|  |  |  |
| **Default** |  | 1. What you pay to borrow other people’s money.
 |
| **Deposit** |  | 1. What people pay to borrow your money
 |
| **Interest** |  | 1. Put money into a bank account.
 |

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| --- | --- | --- |
| **Interest Earned** |  | 1. Individual Retirement Account
 |
| **Interest Due** |  | 1. Failure to repay loan or credit purchases. Fees and litigation may occur.
 |
| **IRA** |  | 1. The cost of borrowing money.
 |
|  |  |  |
| **Loan** |  | 1. Fee charged to person who has spent more money than the account has in it.
 |
| **Loan Officer** |  | 1. Repayment of a debt.
 |
| **Mortgage** |  | 1. Money borrowed to be repaid.
 |
| **Overdraft Fee** |  | 1. To take money out of one’s bank account.
 |
| **Payment** |  | 1. Bank account that earns interest.
 |
| **Savings Account** |  | 1. A loan for purchase of property (home or land). This loan has a set date to be repaid, often in 15 or 30 years.
 |
| **Withdrawal** |  | 1. A person who sells loans to borrowers.
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FINANCIAL LITERACY

LESSON 7-21 TEACHER HANDOUT

 MONEY VOCABULARY ANSWER KEY

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **Account** | **F** | Financial account with a bank. |
| **ATM** | **A** | Automated Teller Machine used to withdraw money. |
| **Balance** | **D** | Amount of money remaining in an account. |
| **Bank** | **E** | Safe place to keep money. |
| **Bank Statement** | **B** | Record of money spent and remaining in account. |
| **Budget** | **C** | Plan for the use of money. |
|  |  |  |
| **Cash Advance** | **K** | A way to access money prior to earning it. (ex: payday loan) |
| **Check** | **J** | Paper directing the bank to pay money from your account. |
| **Checking Account** | **G** | Bank account to write checks from. Does not earn interest. |
| **Credit Card** | **H** | A loan in your pocket. Must repay interest on balances. |
| **Credit Check / Credit Score** | **L** | A number bankers use to determine how likely money will be repaid if loaned to an individual. (high score is best) |
| **Debit Card / Bank Card / Check Card** | **I** | Card that pays money directly from a person’s checking account for purchases. |
|  |  |  |
| **Default** | **Q** | Failure to repay loan or credit purchases. Fees and litigation may occur. |
| **Deposit** | **O** | Put money into a bank account. |
| **Interest** | **R** | The cost of borrowing money. |

|  |  |  |
| --- | --- | --- |
| **Interest Earned** | **N** | What people pay to borrow your money |
| **Interest Due** | **M** | What you pay to borrow other people’s money. |
| **IRA** | **P** | Individual Retirement Account |
|  |  |  |
| **Loan** | **U** | Money borrowed to be repaid. |
| **Loan Officer** | **Y** | A person who sells loans to borrowers. |
| **Mortgage** | **X** | A loan for purchase of property (home or land). This loan has a set date to be repaid, often in 15 or 30 years. |
| **Overdraft Fee** | **S** | Fee charged to person who has spent more money than the account has in it. |
| **Payment** | **T** | Repayment of a debt. |
| **Savings Account** | **W** | Bank account that earns interest. |
| **Withdrawal** | **V** | To take money out of one’s bank account. |
|  |  |  |

FINANCIAL LITERACY

LESSON 7-21 STUDENT HANDOUT

 TRUE COST OF BORROWING MONEY

**SCENARIO 1: CASH ADVANCE LOAN**

You want to buy a new iPod head-set for $80 but don’t have any money saved. You see an ad for a payday loan and decide to give it a try. The short term loan is due to be paid in full on your next pay day in two weeks and you will be charged 18% interest per week on the principle amount. How much will interest will you have to pay? How much will the total payday loan cost?

($80 principle x 0.\_\_\_ interest) = ($\_\_\_\_\_ x 2 weeks) = ($ \_\_ interest + $80 principle) = $ \_\_\_ paid.

Would you take this loan? YES NO

**SCENARIO 2: CREDIT CARD**

You want to buy the latest video gaming system. It costs $500. A friend is coming to visit this coming weekend. You do not have time to save for the purchase, so you apply for a credit card. You are accepted and your new card has a monthly interest rate of 10%. You plan to pay the credit card off in 6 months. How much interest will you pay in 6 months? How much do you need to pay every month?

($500.00 principle x 0.\_\_ interest) = ($\_\_\_\_\_ x \_\_ months) = ($\_\_\_\_.00 interest + $\_\_\_\_ principle) = ($\_\_\_\_\_\_.00 total paid for purchase of game system / 6 months) = $\_\_\_\_\_\_\_ monthly payment

Would you take this loan? YES NO

**SCENARIO 3: CAR LOAN (3 YEARS)**

You turn 16 and are ready to hit the road in style! You have a part time job and are approved for a car loan for up to $5,000.00 for 3 years with a 7% annual interest rate. After lots of car shopping, you find the ride of your dreams, but what will it really cost you in interest? How much will the loan cost over 3 years (36 months)? How much will you need to pay monthly?

($5,000.00 principle x 0.\_\_ interest) = ($\_\_\_\_ x \_\_ years) = ($\_\_.00 interest + $\_\_\_\_\_\_ principle) = ($\_\_\_\_\_\_.00 total paid for purchase of car / 36 months) = $\_\_\_\_\_\_\_ monthly payment

Would you take this loan? YES NO

**SCENARIO 4: HOME MORTGAGE LOAN**

You are ready to settle down and purchase a home. You apply for a first time home buyer’s loan and contact your local real estate agent. After lots of searching, you find a home that suits your needs. It costs

$100,000.00. Your loan is approved for $100,000 for 30 years (360 months) at 5% fixed annual interest rate.

$\_\_\_\_\_\_\_\_ principle x 0.\_\_ interest = $\_\_\_\_\_\_\_\_x \_\_ years = $\_\_\_\_\_\_\_\_interest + $\_\_\_\_\_\_\_\_ principle = $\_\_\_\_\_\_\_\_\_\_\_\_.00 total paid for purchase of home / 360 months) = $\_\_\_\_\_\_\_\_\_\_\_\_.monthly payment

Would you take this loan? YES NO

FINANCIAL LITERACY

LESSON 7-21 TEACHER HANDOUT

 TRUE COST OF BORROWING MONEY ANSWER KEY

**SCENARIO 1: CASH ADVANCE LOAN**

You want to buy a new iPod head-set for $80 but don’t have any money saved. You see an advertisement for a payday loan and decide to give it a try. The short term loan is due to be paid in full on your next pay day in 2 weeks and you will be charged 18% interest per week on the principle amount. How much will interest will you have to pay? How much will the total payday loan cost?

($80 principle x 0.18 interest) = ($14.40 x 2 weeks) = ($28.80 interest + $80 principle) = $108.80 paid.

Would you take this loan? YES NO

**SCENARIO 2: CREDIT CARD**

You want to buy the latest video gaming system. It costs $500. A friend is coming to visit this coming weekend. You do not have time to save for the purchase, so you apply for a credit card. You are accepted and your new card has a monthly interest rate of 10%. You plan to pay the credit card off in 6 months. How much do you need to pay every month?

($500 principle x 0.10 interest) = ($50 x 6 months) = ($300 interest + $500 principle) = ($800.00 total paid / 6 months) = $133.33 monthly payment

Would you take this loan? YES NO

**SCENARIO 3: CAR LOAN (3 YEARS)**

You turn 16 and are ready to hit the road in style! You have a part time job and are approved for a car loan for up to $5,000.00 for 3 years with a 7% annual interest rate. After lots of car shopping, you find the ride of your dreams, but what will it really cost you in interest? How much will the total loan cost over 3 years (36 months)? How much will you need to pay every month?

($5,000 principle x 0.07 interest) = ($350 x 3 years) = ($1050 interest + $5,000 principle) = ($6050.00 total paid / 36 months) = $168.05 monthly payment

Would you take this loan? YES NO

**SCENARIO 4: HOME MORTGAGE LOAN**

You are ready to settle down and purchase a home. You apply for a first time home buyer’s loan and contact your local real estate agent. After lots of searching, you find a home that suits your needs. It costs $100,000.00. Your loan is approved for $100,000 for 30 years (360 months) at 5% fixed annual interest rate.

Answer is not amortized, so interest paid and total cost will be high:

($100,000 principle x 0.05 interest) = ($5000 x 30 years) = (150,000 interest + $100,000 principle) = ($250,000 total paid for house / 360 months) = $694.44 monthly payment

Most loans are amortized, which is a calculation that subtracts the payment from original loan amount, then calculates interest owed every month. If amortized, interest paid is $93,255.78 over the life of loan = $193,255.78 total paid to purchase the house and a monthly payment of $536.82.

Would you take this loan? YES NO

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LESSON 7-21 STUDENT HANDOUT

 JOURNAL PAGE

**DATE:**

**Lesson 7-21 | *BANKING AND PERSONAL CREDIT***

**Q1:** Are you a good saver or do you tend to spend all you have? Give an example.

***Q2:*** Are you a good shopper or do you buy the first thing you see? Give an example.

***Q3:*** What kinds of products are you willing to borrow money to obtain?

***Answers:***