

OVERVIEW

You probably don't think of a loan or credit-card application as a contract, but it is. By signing on the dotted line, you're entering into an agreement between you and the lender about what each of you must or must not do. You have responsibilities you have to meet to uphold your end of the contract, but so does your lender.

Your responsibilities include not taking on more debt than you can afford. Find out how much is too much and learn more about the legal rights and responsibilities of borrowing.

LEARNING OUTCOMES

In this lesson students will learn about the rights and responsibilities of borrowers and lenders. Along the way they will:

- Explain their legal rights and responsibilities when agreeing to a contract.
- Recite guidelines for borrowing limits.
- State where to get help with credit issues.

Students will use what they learn to write a code of conduct for borrowing.

PREPARATION

- Order a Module 2 Student Guide for each student. (The Guide is also available online.)
- Preview the lesson PowerPoint presentation, learning tasks, and Module 2 Student Guide, particularly pages 16-34 and 39.
- Print or download the Student Learning Plan for this lesson so each student has a copy.
- Collect samples of credit card agreements from mailings, or download samples from www.consumerfinance.gov/credit-cards/agreements.

WHAT YOU WILL NEED

- Module 2 Student Guide
- PowerPoint Presentation 2-4
- Student Learning Plan 2-4
- Activity 2.6: Good and Bad Uses of Credit
- Activity 2.7: Know the Limit
- Activity 2.9: Rights and Responsibilities of Borrowing
- Challenge 2-C: Credit Code of Behavior
- Sample credit card agreements (Task 3)

NOTES:

Approximate time: 45 minutes (minimum) – 90 minutes (with extension activities)

Resources:

- Consumer Financial Protection Bureau, www.consumerfinance.gov/credit-cards/.
- Federal Trade Commission Bureau of Consumer Protection, www.ftc.gov/bcp.

LEARNING TASKS	TEACHING NOTES	MATERIALS
<p>1. Explain why you think credit is good or bad.</p>	<p>PROCEDURE ESTIMATED TIME: 5 minutes</p> <p><input type="checkbox"/> [Slide 2] Kick off this lesson by asking the students if they think credit is good or bad based on what they have learned in previous lessons. Gather responses either by a show of hands or by facilitating a brief debate with students offering arguments for each side. At this time, allow students to share without you making judgments. Select comments and opinions to reference throughout this lesson.</p> <p><input type="checkbox"/> Click on Slide 2 to display the statement “HOW we use credit is what’s good or bad.” (Student Guide, page 4) Transition into the next slide to preview the lesson by telling the students that they will learn about their responsibilities as borrowers.</p> <p><input type="checkbox"/> [Slide 3] Preview the Learning Outcomes in the Student Learning Plan. As a wrap up to this lesson, the students will outline their personal code of conduct for borrowing.</p>	<p>Module 2 Student Guide</p> <p>Student Learning Plan 2-4</p> <p>STUDENT GUIDE Page 4</p> <p>SLIDES 2 – What do you think? 3 – Preview</p>
<p>2. Check your knowledge of ways you can improve your credit score.</p>	<p>PROCEDURE TIME: 5 minutes</p> <p><input type="checkbox"/> Point out to the students that even if they decide to limit or avoid borrowing, having some type of credit history can be to their advantage down the road. Having a credit report that shows a history of using credit responsibly can provide benefits such as lower insurance premium rates, less hassle when applying for utilities they need or to rent an apartment, or lower interest rates if ever deciding to apply for a credit card, auto loan, or home loan.</p> <p><input type="checkbox"/> Review how a credit report is similar to a letter of recommendation, a way for lenders to investigate someone’s borrowing history and reputation. Remind the students that lenders use information from credit reports to determine credit scores which are used to predict if a person will pay bills on time. (Note: This is covered in more detail in Lesson 2-3.)</p> <p><input type="checkbox"/> Click through slides 4-6 to review the types of actions that help increase a credit score.</p> <p><input type="checkbox"/> Ask students if they were surprised by any of the answers. Point out that lenders want to do business with responsible borrowers, but lenders are also in the business to make money. They are seeking customers who will not only repay but also will potentially pay the additional interest. This is one reason for individuals to know what they are getting into when borrowing.</p>	<p>STUDENT GUIDE Review of pages 23-30</p> <p>SLIDES 4-6 – Win Loans and Influence Interest</p>

Lesson 2-4: Rights and Responsibilities

LEARNING TASKS	TEACHING NOTES	MATERIALS
<p>3. Find out what you are getting into when signing a credit contract. Complete Activity 2.9: Rights and Responsibilities to examine the fine print on a credit agreement.</p>	<p style="text-align: right;">TIME: 15 minutes</p> <p>PROCEDURE</p> <ul style="list-style-type: none"> ❑ [Slide 7 – title only] Point out to students that they are entering into a contract when they borrow money, take out a loan, use a credit card, or get a cellphone. A contract is a legal arrangement that two parties agree to uphold. Although repaying what is owed is the right thing to do, borrowers have additional responsibilities to carry out when entering into a contract. [Click to show each bullet point.] Point out the potential consequences if someone doesn't follow through on their contractual responsibilities. (Student Guide, page 17) ❑ [Slide 8] Clarify what makes a contract official so students know what they are getting into when, as adults, they sign a cellphone agreement, use a credit card, sign as a co-signer for a cash loan, or click "I agree" on the payment page when shopping online. (page 32) ❑ Ask students to brainstorm examples of contracts (both for borrowing money and for other services) they might be exposed to as they become young adults. Examples: apartment lease, car or motorcycle loan, mortgage, utilities (water, electricity, cellphone, Internet, cable or satellite TV), or rentals (auto, post office box, safe deposit box, textbook, sporting equipment, hotel, bike share, parking space). Stress the importance of comprehending and accepting responsibility for the terms of the agreement before they indicate acceptance. Acceptance might be a traditional signature in ink, an electronic signature, or a click on a type of online "I Accept" tab. Point out that using the services can also be considered acceptance. For example, if a call is made that exceeds the monthly minute limit, the caller is agreeing to pay extra for those additional minutes. ❑ [Slide 9] Summarize the common responsibilities a borrower has when signing and carrying out a credit agreement (page 32). ❑ [Slide 10] Introduce the students to the Consumer Financial Protection Bureau (CFPB) and the Federal Trade Commission (FTC) as resources for consumer information and guidance should they ever need assistance when dealing with credit problems. Consider visiting each website to tour the consumer resources. ❑ Arrange for students (individually or in pairs) to have access to two credit agreements so they can research and compare contract terms as they complete Activity 2.9: Rights and Responsibilities. If time allows, ask several students which card they would pick and why. 	<p>STUDENT GUIDE Pages 17, 31-33</p> <p>SLIDES 7 – Follow Through or Risk ... 8 – The Contract 9 – Ignorance is No Excuse 10 – On Your Side</p> <p>ACTIVITIES Sample credit card agreements Activity 2.9: Rights and Responsibilities</p> <p>Internet sites: www.ftc.gov/bcp www.consumerfinance.gov</p>

LEARNING TASKS	TEACHING NOTES	MATERIALS
	<p>Note: Collect applications with terms from local banks, credit union, mail solicitations, or download sample credit card agreements from CFPB's website, www.consumerfinance.gov/credit-cards/agreements/.</p> <p>To help define and explain each term, go to the prototype credit card agreement on "Know Before You Owe" page on the CFPB website, www.consumerfinance.gov/credit-cards/knowbeforeyouowe/.</p>	
<p>4. When is debt too much? Find out as you complete Activity 2.7: Know the Limit.</p>	<p style="text-align: right;">TIME: 10 minutes</p> <p>PROCEDURE</p> <ul style="list-style-type: none"> <input type="checkbox"/> Facilitate a discussion about how using credit is borrowing from the lender AND from your future self. The borrower needs to plan ahead to build the repayment into a spending plan, and this is money that won't be available for something else. (Option: Read <i>Stealing From Your Future Self</i>, page 19.) Use the story of Mariah's mom as an example of what happens when borrowing gets out of control and a person takes on more debt than s/he can afford (page 16). Taking on too much debt increases the amount paid in fees and interest which is money that isn't available for other needs and wants, now and in the future. <input type="checkbox"/> [Slide 11] Explain how the 20-10 Rule is a guideline to help borrowers evaluate how much debt is too much. Stress that each borrower needs to take responsibility to determine what is affordable based on his or her actual situation, not hoped for situation. <input type="checkbox"/> [Slides 12-13] Allow time for students to practice (in pairs or individually) calculating debt limits by completing Activity 2.7: Know the Limit. Click on the slide to check their calculations. <p>Additional Note: The 20-10 Rule doesn't include debt related to a mortgage. Most lenders use some variation of the "28/36 Rule." This means that PITI (principle, interest, taxes and insurance) cannot exceed 28 percent of gross monthly income and PITI, plus all outstanding consumer debt (such as car loans and credit card payments), cannot exceed 36 percent of gross income. For example, a two-income couple earning \$60,000 annually, or \$5,000 a month, would qualify for a mortgage with a \$1,400 monthly PITI payment ($\\$5,000 \times .28$) if they had no other debt and a \$1,200 monthly payment if they had \$600 of monthly consumer debt payments ($\\$5,000 \times .36 = \\$1,800 - \\$600 = \\$1,200$).</p> <p>Source: NEFE's Smart About Money website, www.smartaboutmoney.org/LifeEventsFinancialDecisions/PlanningaMajorPurchase/BuyingaHome/FirstHomePurchase/tabid/429/Default.aspx</p>	<p>STUDENT GUIDE Pages 16, 19-21</p> <p>SLIDES 11 - Know the Limit: The 20-10 Rule 12-13 - When to Say When</p> <p>ACTIVITY Activity 2.7: Know the Limit</p>

Lesson 2-4: Rights and Responsibilities

LEARNING TASKS	TEACHING NOTES	MATERIALS
<p>5. Use the SHREWD guidelines to complete Activity 2.6: Good and Bad Uses of Credit.</p>	<p>PROCEDURE TIME: 10 minutes</p> <p><input type="checkbox"/> [Slide 14, page 21] Demonstrate how to apply the SHREWD questions for a possible borrowing situation. Use one of the situations on page 4 for an example or create a different scenario that the students can relate to.</p> <p><input type="checkbox"/> Have the students apply the questions as they complete Activity 2.6: Good and Bad Uses of Credit. This is a good time to point out that the Stop Drop and Think Before You Buy Test (Appendix, page 40) can also be applied when making spending decisions that will involve borrowing.</p>	<p>STUDENT GUIDE Pages 4, 21</p> <p>SLIDE 14 - Be a SHREWD Borrower</p> <p>ACTIVITY Activity 2.6: Good and Bad Uses of Credit</p>
<p>6. Complete Challenge 2-C: Credit Code of Behavior to write your personal code for borrowing.</p>	<p>PROCEDURE In-class or out-of-class assignment</p> <p><input type="checkbox"/> [Slide 15] Wrap up this lesson by asking for student volunteers to role play an impromptu interview with a news reporter. Ask students what they would say if they were stopped on the street and asked the following question that will be aired on tonight’s news segment about credit: <i>What two tips can you offer about using credit?</i></p> <p><input type="checkbox"/> [Slide 16] Guide students to consider what they have learned about using credit to create their own type of code of conduct when dealing with credit and debt. Give them a deadline to complete Challenge 2-C: Credit Code of Behavior to establish guidelines they intend to follow when borrowing items or money.</p>	<p>STUDENT GUIDE Page 39</p> <p>SLIDES 15 - What Would You Say? 16 - Challenge</p> <p>ACTIVITY Challenge 2-C: Credit Code of Behavior</p>
<p>TAKING IT HOME</p> <p>Write a contract with your parents or guardians to clarify the rights and responsibilities for both you and your parents.</p>	<p>PROCEDURE In-class or out-of-class assignment</p> <p><input type="checkbox"/> Students may need assistance thinking of possible contracts to write. Be prepared to share some examples, perhaps from your childhood, from parenting experiences, or even from work.</p> <p><input type="checkbox"/> Students may opt to do this assignment to create entrepreneurship opportunities, such as contracting to do a neighbor’s landscaping or housecleaning. Creating such contracts will help legitimize their efforts while creating some firm guidelines for their clients’ rights and the students’ responsibilities as the contractor.</p> <p>RESOURCES: Free contract templates can be found online. Encourage students who download templates to edit contracts to reflect their specific situation, terms and conditions. They will also need to take out anything that does not apply to the situation.</p>	<p>STUDENT GUIDE Pages 34-35</p>

LEARNING TASKS	TEACHING NOTES	MATERIALS
EXTENSION Research and create a consumer protection marketing campaign.	PROCEDURE In-class or out-of-class assignment <input type="checkbox"/> Establish a timeline for students to complete their marketing campaign, either individually or in groups. Arrange for the students to present their marketing concepts to the entire class.	

**TAKING IT HOME**

Think about a right or responsibility that you take on at home or think you are ready to take on. Write a contract with your parents/guardians to clarify the rights and responsibilities for both you and your parents. Clarify the terms of the arrangement for work you do or privileges you have such as using the family car, following a curfew, or having a cellphone.

**EXTENSION**

Research and create a consumer protection marketing campaign for your school or community. Select either “identity fraud” or “rights and responsibilities of borrowers” for your campaign.

1. Collect information and compelling facts from at least four different reliable sources.
2. Compile information to create 10 of the most useful “tips” for your campaign.
3. Check that your tips are accurate, concise, easy-to-understand, and free from writing errors.
4. Determine the most appropriate media for your campaign: posters, brochures, school/cable access television show, website, or Internet video.
5. Create your campaign materials.
6. Deploy your campaign!
7. If time allows, measure the impact of your campaign with a survey before and after your campaign.