

Lesson 2-4: Rights and Responsibilities

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.

Lesson 2-4: Rights and Responsibilities

LEARNING TASKS	TEACHING NOTES	MATERIALS
1. Explain why you think credit is good or bad.	<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>
2. Check your knowledge of ways you can improve your credit score.	<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>PROCEDURE TIME: 15 minutes</p> <p><input type="checkbox"/> [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)</p> <p><input type="checkbox"/> [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)</p> <p><input type="checkbox"/> 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.</p> <p><input type="checkbox"/> [Slide 9] Summarize the common responsibilities a borrower has when signing and carrying out a credit agreement (page 32).</p> <p><input type="checkbox"/> [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.</p> <p><input type="checkbox"/> 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>	<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>

Lesson 2-4: Rights and Responsibilities

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>PROCEDURE TIME: 10 minutes</p> <p><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.</p> <p><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.</p> <p><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> <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 (principal, 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
5. Use the SHREWD guidelines to complete Activity 2.6: Good and Bad Uses of Credit .	<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>
6. Complete Challenge 2-C: Credit Code of Behavior to write your personal code for borrowing.	<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
<p>EXTENSION</p> <p>Research and create a consumer protection marketing campaign.</p>	<p>PROCEDURE</p> <p>In-class or out-of-class assignment</p> <p>❑ 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.</p>	



TAKING IT HOME

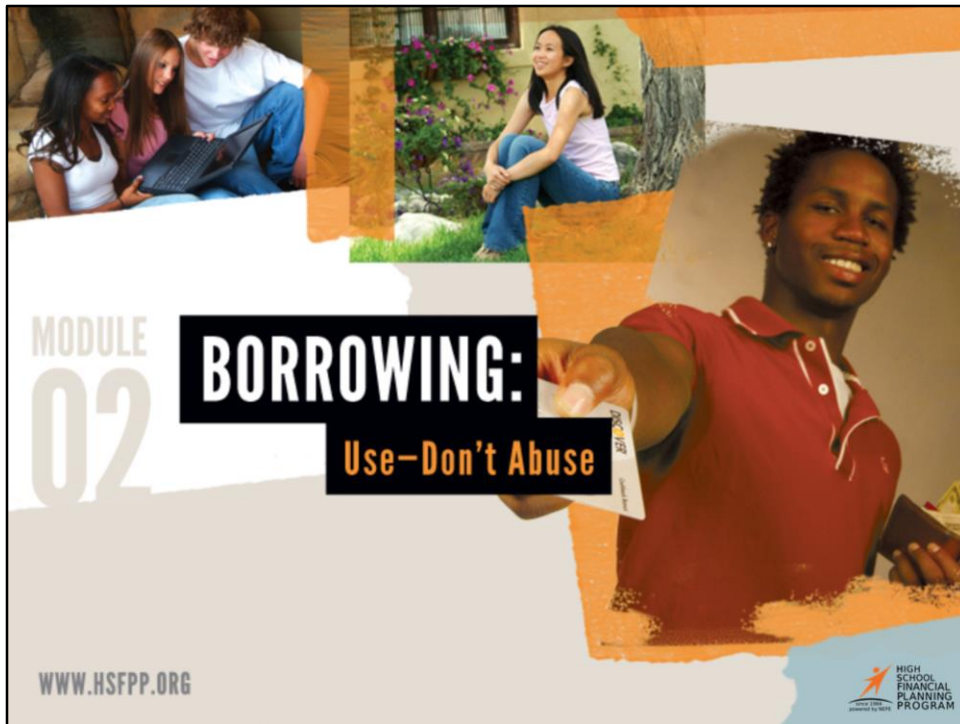
Think about a right or responsibility that you take on at home or think you are ready to take on. Write a contract with your parents/guardians to clarify the rights and responsibilities for both you and your parents. Clarify the terms of the arrangement for work you do or privileges you have such as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

EXTENSION

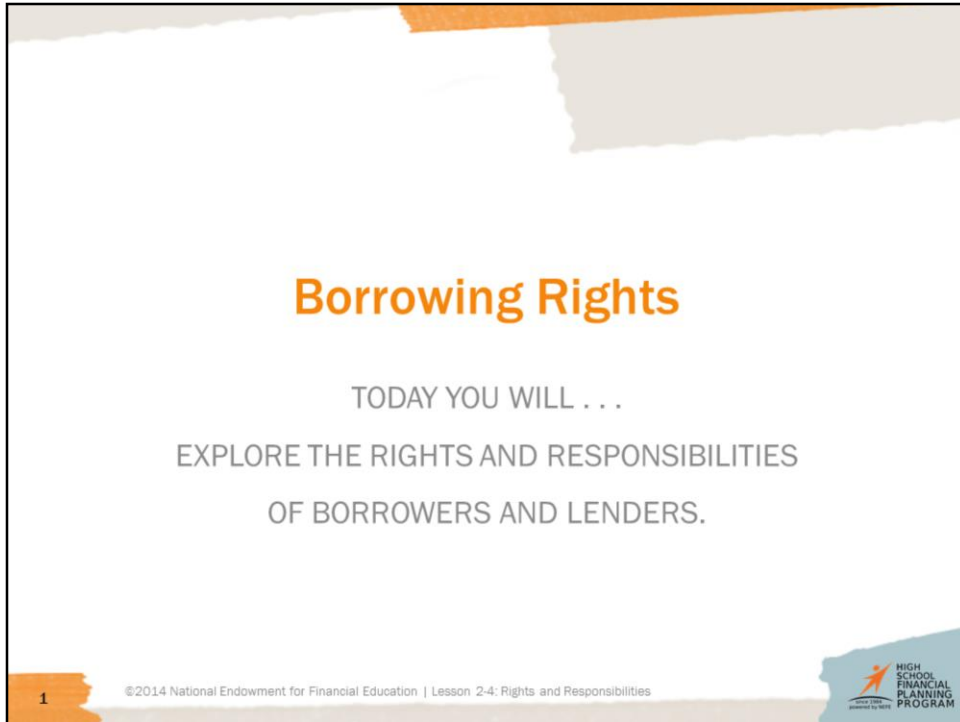
Research and create a consumer protection marketing campaign for your school or community. Select either “identity fraud” or “rights and responsibilities of borrowers” for your campaign.

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.

HIGH SCHOOL FINANCIAL PLANNING PROGRAM
LESSON 2-4: RIGHTS AND RESPONSIBILITIES



HIGH SCHOOL FINANCIAL PLANNING PROGRAM
LESSON 2-4: RIGHTS AND RESPONSIBILITIES




Borrowing Rights

TODAY YOU WILL . . .

EXPLORE THE RIGHTS AND RESPONSIBILITIES
OF BORROWERS AND LENDERS.

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GROW YOUR KNOWLEDGE TO GROW

- ❑ Display this slide as you kick off the lesson.

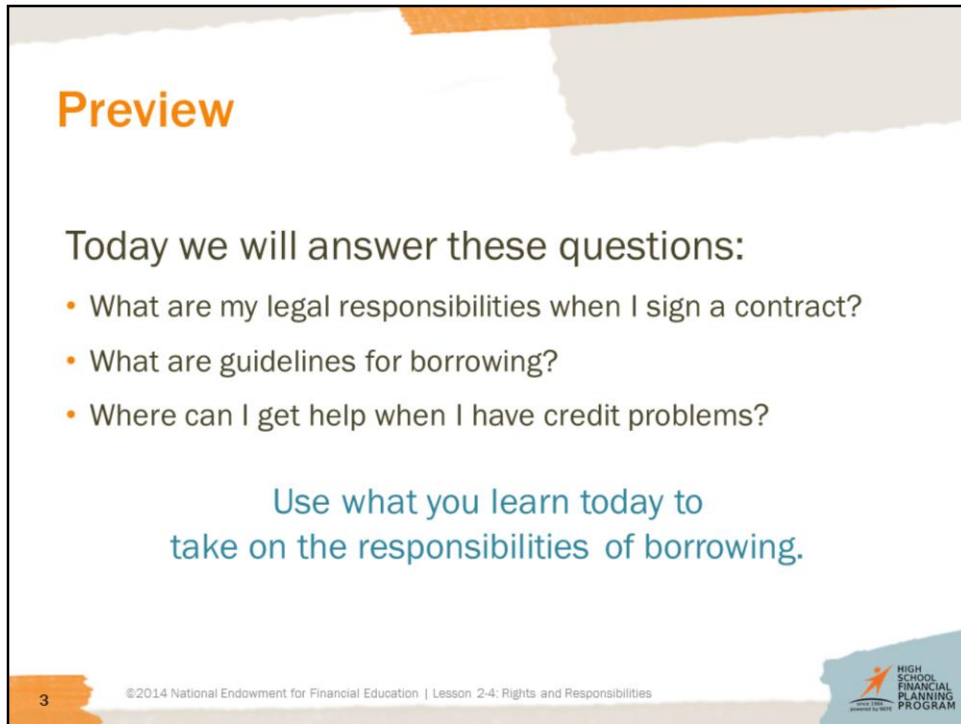
HIGH SCHOOL FINANCIAL PLANNING PROGRAM
LESSON 2-4: RIGHTS AND RESPONSIBILITIES



Student Guide, page 4

- ❑ Ask 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 the rest of this lesson.
- ❑ Click on the slide to display the statement “How we use credit is what’s good or bad.” Transition into the next slide to preview the lesson by telling the students that they will learn about their responsibilities as borrowers.

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LESSON 2-4: RIGHTS AND RESPONSIBILITIES



Preview

Today we will answer these questions:

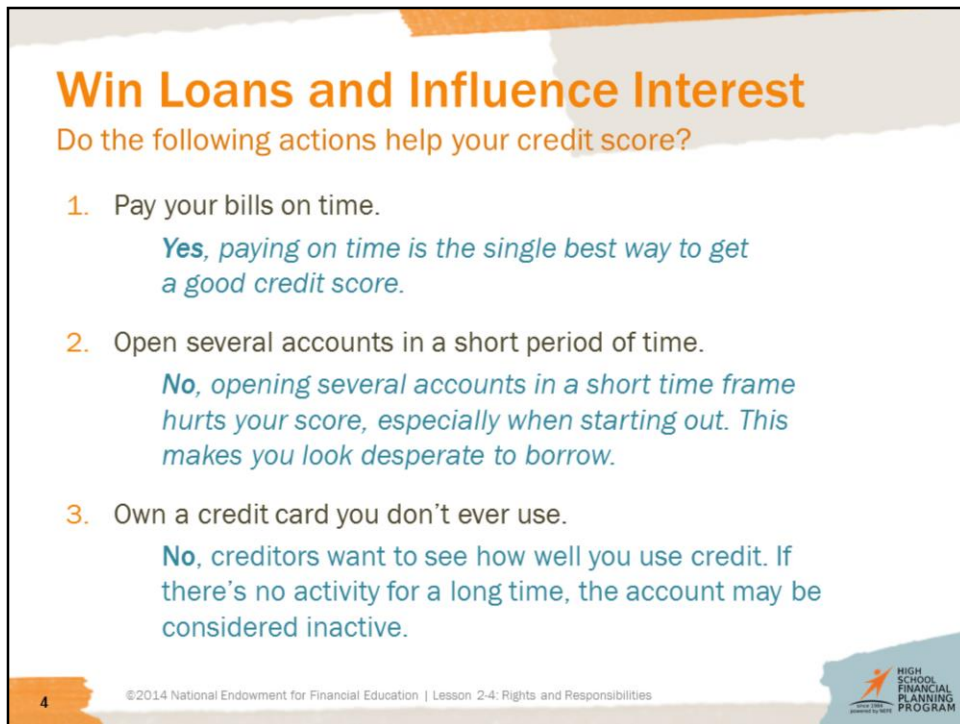
- What are my legal responsibilities when I sign a contract?
- What are guidelines for borrowing?
- Where can I get help when I have credit problems?

Use what you learn today to
take on the responsibilities of borrowing.

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- ❑ Preview the lesson by telling the students that they will learn about their responsibilities as borrowers. 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.

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LESSON 2-4: RIGHTS AND RESPONSIBILITIES



Win Loans and Influence Interest

Do the following actions help your credit score?

1. Pay your bills on time.
Yes, paying on time is the single best way to get a good credit score.
2. Open several accounts in a short period of time.
No, opening several accounts in a short time frame hurts your score, especially when starting out. This makes you look desperate to borrow.
3. Own a credit card you don't ever use.
No, creditors want to see how well you use credit. If there's no activity for a long time, the account may be considered inactive.

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- ❑ 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.
- ❑ 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.)
- ❑ Click through slides 4-6 to review the types of actions that help increase a credit score.

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LESSON 2-4: RIGHTS AND RESPONSIBILITIES

Win Loans and Influence Interest

Do the following actions help your credit score?

4. Frequently move credit card balances to new cards with better interest rates.

No, card hopping decreases the average age of your credit accounts, and lenders like to see long-term relationships.

5. Get a credit card when you already have a car and student loan.

Yes, adding a credit card when you only have loans can help because lenders prefer to see a mix of credit types.

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- ❑ Click through slides 4-6 to review the types of actions that help a credit score.

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LESSON 2-4: RIGHTS AND RESPONSIBILITIES

Win Loans and Influence Interest
Do the following actions help your credit score?

6. Close a credit card that you made a lot of late payments on.
No, closing an account with negative items won't help.
The account will still remain on your credit report for up to 10 years, whether inactive or closed.

7. Use a debit card responsibly.
No, debit card usage doesn't show up in a credit report because these types of transactions are withdrawals from your own bank account rather than borrowing from someone else.

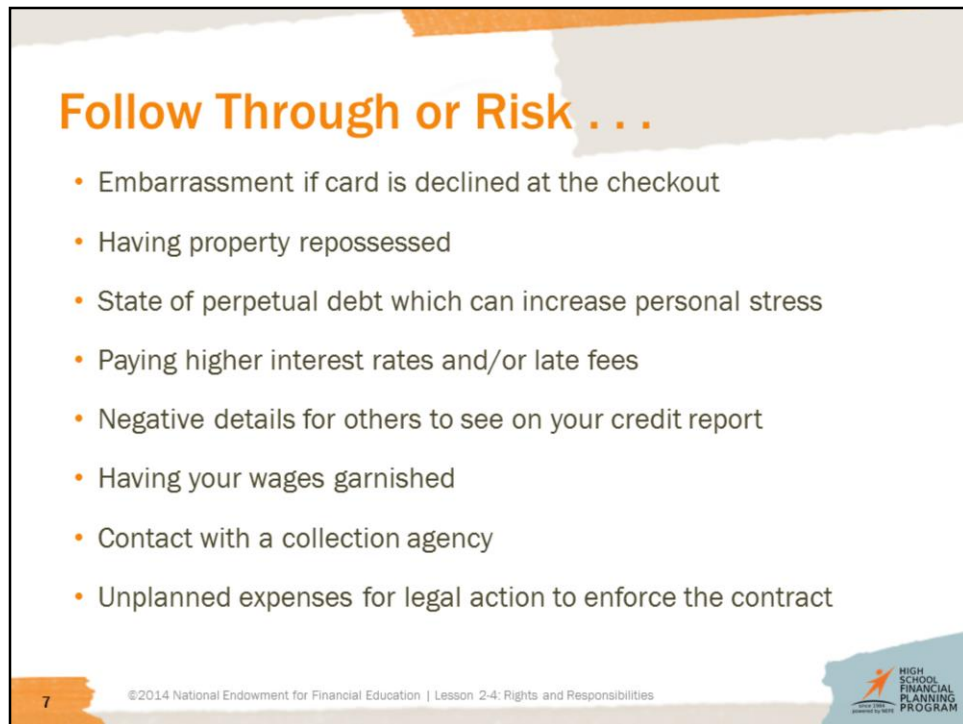
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GIVE THEM A HAND TO HELP

- ☐ Click through slides 4-6 to review the types of actions that help a credit score.
- ☐ 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 have the potential to pay interest. This is one reason for individuals to know what they are getting into when borrowing.

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LESSON 2-4: RIGHTS AND RESPONSIBILITIES



Follow Through or Risk . . .

- Embarrassment if card is declined at the checkout
- Having property repossessed
- State of perpetual debt which can increase personal stress
- Paying higher interest rates and/or late fees
- Negative details for others to see on your credit report
- Having your wages garnished
- Contact with a collection agency
- Unplanned expenses for legal action to enforce the contract

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Student Guide, page 17

- ❑ [Display slide heading] 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 slide bullet points] Point out the potential consequences if someone doesn't follow through on their contractual responsibilities.

HIGH SCHOOL FINANCIAL PLANNING PROGRAM
LESSON 2-4: RIGHTS AND RESPONSIBILITIES



Student Guide, page 32

- ☐ 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.
- ☐ Ask students to brainstorm other examples of contracts (both for credit 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 a type of 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.

HIGH SCHOOL FINANCIAL PLANNING PROGRAM
LESSON 2-4: RIGHTS AND RESPONSIBILITIES

Ignorance is No Excuse

Read the fine print:

- Payment amount
- Payment due date(s)
- Consequences of late or no payments:
 - Payment penalties? Collection costs? Repossession of property?
- Any insurance coverage requirements (i.e. car, apt)
- How to notify about changes to personal information
- What to do if you have problems with the arrangement



Pay attention to updates!

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Student Guide, page 32

- ☐ Summarize the common responsibilities a borrower has when signing and carrying out a credit agreement.

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LESSON 2-4: RIGHTS AND RESPONSIBILITIES

On Your Side

Federal Trade Commission, www.ftc.gov

Consumer Financial Protection Bureau, www.consumerfinance.gov

- Equal Credit Opportunity Act
- Fair Credit Reporting Act
- Fair Credit Billing Act
- Truth-in-Lending Act

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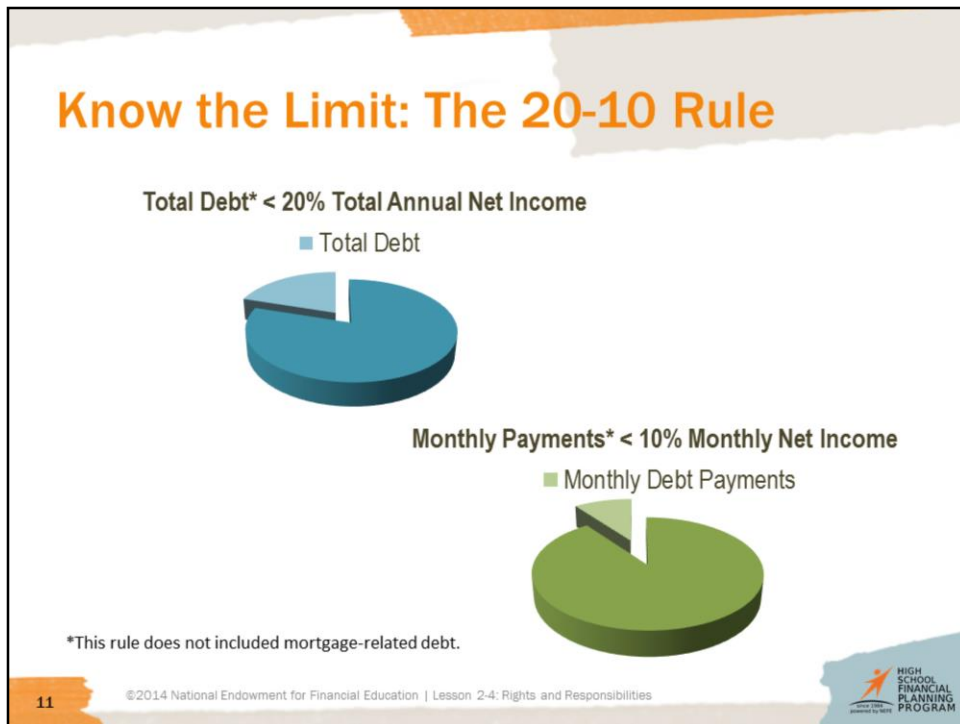
Student Guide, page 33

- ☐ 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.

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/.

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/.

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LESSON 2-4: RIGHTS AND RESPONSIBILITIES



Student Guide, page 20

- ❑ Facilitate a discussion about how using credit is borrowing from the lender and from the borrower's 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 *Stealing From Your Future Self*, 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.
- ❑ 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. Use the next slide and Activity 2.7 for practice.

HIGH SCHOOL FINANCIAL PLANNING PROGRAM
LESSON 2-4: RIGHTS AND RESPONSIBILITIES

When to Say When

Borrower	Annual Net Income	Maximum Total Debt (20% Net Income)	Maximum Monthly Payments (10% Monthly Net Income)
Mariah's sister	\$6,500	$\$6,500 \times .20$	$(\$6,500/12) \times .10$
Jesse's brother	\$24,750	?	?
Jesse's sister	\$35,800	?	?
You	?	?	?

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Student Guide, page 20

- 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.

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 ($\$5,000 \times .36 = \$1,800 - \$600 = \$1,200$).

Source: NEFE's Smart About Money website, www.smartaboutmoney.org/LifeEventsFinancialDecisions/PlanningaMajorPurchase/BuyingaHome/FirstHomePurchase/tabid/429/Default.aspx

HIGH SCHOOL FINANCIAL PLANNING PROGRAM
LESSON 2-4: RIGHTS AND RESPONSIBILITIES

When to Say When: The 20-10 Rule

Borrower	Annual Net Income	Maximum Total Debt (20% Net Income)	Maximum Monthly Payments (10% Monthly Net Income)
Mariah's sister	\$6,500	\$1,300	\$54.17
Jesse's brother	\$24,750	\$4,950	\$206.25
Jesse's sister	\$35,800	\$7,160	\$298.33
You	\$N	$\$N \times .20$	$(\$N/12) \times .10$

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Student Guide, page 20

- ❑ Click to the slide so students can check their answers to Activity 2.7.

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LESSON 2-4: RIGHTS AND RESPONSIBILITIES

Be a SHREWD Borrower

Is there a **S**incere need or want?

Am I **H**appy to pay?

Is there **R**oom in my spending plan?

Will there be **E**xtra cost?

What is the **W**aiting cost?

Will I be **D**isciplined to repay on time?

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Student Guide, pages 4, 21, and 40.

- ❑ Click through this slide to 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.
- ❑ 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.

HIGH SCHOOL FINANCIAL PLANNING PROGRAM
LESSON 2-4: RIGHTS AND RESPONSIBILITIES

What Would You Say?



If you were to be interviewed on the street today, how would you answer this question:

What two tips can you offer about using credit?

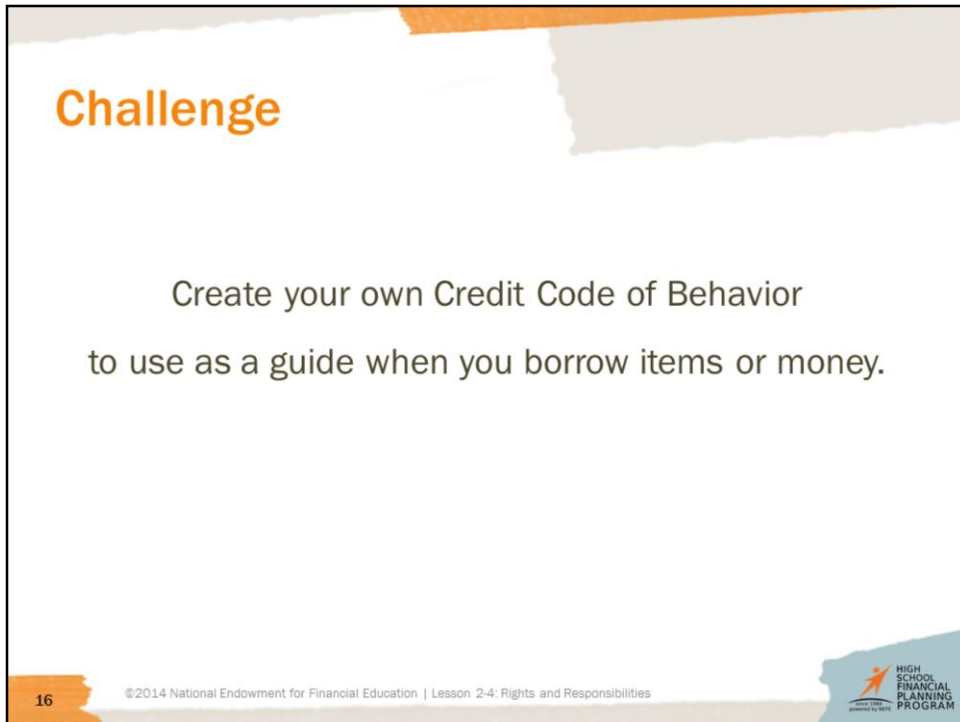
15

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- ❑ 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: *What two tips can you offer about using credit?*

HIGH SCHOOL FINANCIAL PLANNING PROGRAM
LESSON 2-4: RIGHTS AND RESPONSIBILITIES

A slide with a white background and a torn paper effect at the top. The word "Challenge" is written in orange. The main text is centered and reads: "Create your own Credit Code of Behavior to use as a guide when you borrow items or money." At the bottom left is the number "16". At the bottom center is the copyright notice: "©2014 National Endowment for Financial Education | Lesson 2-4: Rights and Responsibilities". At the bottom right is the logo for the High School Financial Planning Program, which includes a stylized orange figure and the text "HIGH SCHOOL FINANCIAL PLANNING PROGRAM" and "GIVE THEM A HAND TO HELP THEM GET ON THEIR FEET".

Challenge

Create your own Credit Code of Behavior
to use as a guide when you borrow items or money.

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HIGH SCHOOL FINANCIAL PLANNING PROGRAM
GIVE THEM A HAND TO HELP THEM GET ON THEIR FEET

Student Guide, page 39

- ❑ 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.

HIGH SCHOOL FINANCIAL PLANNING PROGRAM
LESSON 2-4: RIGHTS AND RESPONSIBILITIES

MODULE
02

BORROWING:
Use-Don't Abuse

WWW.HSFPP.ORG

HIGH SCHOOL FINANCIAL PLANNING PROGRAM
GIVE TIME
MAKE IT COUNT

The graphic features a collage background with a torn paper effect. A black and white photograph of a young man and woman smiling is positioned on the right. The text 'MODULE 02' is in the top left, 'BORROWING: Use-Don't Abuse' is in the center left, and the website 'WWW.HSFPP.ORG' is at the bottom left. The program logo is in the bottom right corner.

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 you will learn about the rights and responsibilities of borrowers and lenders. Along the way you will:

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

Use what you learn to write a code of conduct for borrowing.

LEARNING TASKS

These tasks match pages 16-34, 39 in Student Guide 2.

__ 1.	Explain why you think credit is good or bad.
__ 2.	Check your knowledge of ways you can improve your credit score.
__ 3.	Find out what you are getting into when signing a credit contract. Complete Activity 2.9: Rights and Responsibilities as you examine the fine print on a credit agreement.
__ 4.	When is debt too much? Find out as you complete Activity 2.7: Know the Limit .
__ 5.	Use the SHREWD guidelines to complete Activity 2.6: Good and Bad Uses of Credit .
__ 6.	Complete Challenge 2-C: Credit Code of Behavior to write your personal code for borrowing.



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 the 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.

Activity 2.6 Good and Bad Uses of Credit

NAME:

DATE:

Directions:

For each situation below, mark (X) if you think this is a good reason to borrow money. If you did not mark an X, explain why you think the situation is not a good reason to use credit.

- ☐ 1. Taking out a \$5,000 student loan for college tuition.

- ☐ 2. Charging dinner and movie tickets during a night out with your friends.

- ☐ 3. Buying a laptop that's on sale using the store's financing program.

- ☐ 4. Getting a loan to pay your credit-card bills.

- ☐ 5. Charging repairs to get your car running again.

- ☐ 6. Borrowing cash from a friend to buy some magazines.

Activity 2.6 Good and Bad Uses of Credit

NAME: KEY

DATE:

Directions:

For each situation below, mark (X) if you think this is a good reason to borrow money. If you did not mark an X, explain why you think the situation is not a good reason to use credit.

- ☒ 1. Taking out a \$5,000 student loan for college tuition.
As a last resort, this is one example of using credit to invest in a person's future only if all other options have been considered, such as working to save money for tuition, selecting from college options that are in a person's (or family's) affordable price range, seeking scholarship and/or grant funding, or reducing other expenses to have more available for tuition. The borrower should do the homework to compare student loan options and terms to ensure s/he will be able to meet the repayment responsibilities later. [See more information about college payment options, *Module 3: Earning Power*.]
- ☐ 2. Charging dinner and movie tickets during a night out with your friends.
Charging for something without long-lasting benefits is generally not a good reason to use credit. In this case, the bill for the charges will arrive long after the event has ended. However, some people do charge these types of purchases so they don't have to carry around large amounts of money or because of the convenience of ordering tickets online. In this case, a good practice is to pay the full credit card bill balance when the monthly bill arrives to avoid paying interest and any late fees.
- ☐ 3. Buying a laptop that's on sale using the store's financing program.
This depends on whether or not the total paid at the sale price plus finance costs is less than the cost of waiting to pay in cash. Also, the buyer will need to discern if the laptop is needed immediately or the purchase can be delayed until the money has been saved to pay in cash. (Read about Jesse's situation on page 12 of Student Guide 2 for an example of when and how not to finance the purchase of a laptop.) Ideally, the buyer should plan to set aside money in advance to be positioned with sufficient cash on hand to take advantage of a sale price without using credit.
- ☐ 4. Getting a loan to pay your credit-card bills.
If someone is unable to meet current credit obligations, it is unwise to take on more credit, especially if the new credit is at a higher interest rate. The best option is to increase income or decrease other expenditures to pay down the credit card balances as quickly as possible, starting with the credit account that has the highest interest rate.
- ☒ 5. Charging repairs to get your car running again.
This might be an example of a time to use credit, especially if the car is essential to get to work or school. A better option would be to have cash on hand in a type of emergency fund that can be tapped for this type of unexpected, necessary expense. Replenishing the emergency fund should then become a high priority.
- ☐ 6. Borrowing cash from a friend to buy some magazines.
This isn't a good reason to borrow because it is for a small purchase with short-term benefits. It makes more sense to allocate for this expense in a spending plan to have the cash on hand for the purchase rather than borrow money for something that most likely won't have any value later.

Activity 2.7: Know the Limit

NAME:

DATE:

The 20–10 Rule for Borrowing Limit

\$ Total of	Should Be LESS Than	of Your
Amount Borrowed*	20%	Annual Net Income
Monthly Payments	10%	Monthly Net Income

**Includes credit cards but not mortgages*

Directions:

- Use the 20-10 Rule to calculate the debt limits for Mariah's and Jesse's older siblings.
- If you earn any income now, also compute your debt limits.

Borrower	Annual Net Income	Maximum Total Debt (20% Annual Net Income)	Maximum Monthly Payments (10% Monthly Net Income)
Mariah's sister	\$6,500	\$	\$
Jesse's brother	\$24,750	\$	\$
Jesse's sister	\$35,800	\$	\$
Me	\$	\$	\$

Activity 2.7: Know the Limit

NAME: **KEY**

DATE:

The 20–10 Rule for Borrowing Limit

\$ Total of	Should Be LESS Than	of Your
Amount Borrowed*	20%	Annual Net Income
Monthly Payments	10%	Monthly Net Income

**Includes credit cards but not mortgages*

Directions:

- Use the 20-10 Rule to calculate the debt limits for Mariah's and Jesse's older siblings.
- If you earn any income now, also compute your debt limits.

Borrower	Annual Net Income	Maximum Total Debt (20% Annual Net Income)	Maximum Monthly Payments (10% Monthly Net Income)
Mariah's sister	\$6,500	$\$6,500 \times .20 = \$1,300$	$(\$6,500/12) \times .10 = \54.17
Jesse's brother	\$24,750	$\$24,750 \times .20 = \$4,950$	$(\$24,750/12) \times .10 = \206.25
Jesse's sister	\$35,800	$\$35,800 \times .20 = \$7,160$	$(\$35,800/12) \times .10 = \298.33
Me	\$__N__	$\$N \times .20 = \$______$	$(\$N/12) \times .10 = \$______$

Activity 2.9: Rights and Responsibilities of Borrowing

NAME:

DATE:

Directions:

Look at a credit card agreement, loan contract, or service agreement to find at least two rights and two responsibilities of the borrower and the same for the lender. Summarize your findings below.

Type of Agreement or Contract:		
	Rights	Responsibilities
Borrower		
Lender		

Challenge 2-C: Credit Code of Behavior

NAME:

DATE:

As you work through the lessons and activities in NEFE's High School Financial Planning Program, compile your completed challenge activities into a personal financial planning portfolio. For this challenge task, use what you have learned in **Lesson 2-4: Rights and Responsibilities** to create your own personal *Code of Conduct for Borrowing*.

Although you might not need or even be able to take personal responsibility for credit now, you are on your way to developing the knowledge and positive habits that will help you avoid the pitfalls of debt problems. Consider how you will use what you learned about credit when you borrow, now and when you are legally able to enter into a credit contract agreement as an adult.

Directions:

- ☐ 1. Write out a personal statement that describes the habits and rules you will apply when using credit and managing debt. This personal Code of Conduct should be applicable to a variety of borrowing situations, whether to borrow money, use a credit card, take out a car loan, or pay for phone or Internet services.
 - Include standards of conduct you will follow when borrowing money and managing credit use. These rules for how you will behave—such as self-imposed dos and don'ts—should match your personal values and recommended habits for using credit.
 - Include standards of practice you will follow when deciding whether or not to borrow, entering into credit contract agreements, managing your debt load, and engaging with lenders. Your standards might include decision-making criteria and how-to procedures to guide your actions when borrowing money and managing debt.
- ☐ 2. Preview the criteria listed in the Scoring Guide to plan your work. If you completed Challenge 2-B: Building Creditworthiness, refer to your personal assessment and strategies to establish a favorable credit rating.
- ☐ 3. Self-assess your work using the Scoring Guide. Optional: Ask a classmate or family member to peer assess your work using the Scoring Guide.

Tips for Writing a Code of Conduct

- Consider how your code of conduct will help you put your values into practice.
- Think about how the code of conduct can help you make decisions.
- Include examples of acceptable and unacceptable behavior to clarify points.
- Assess how easy or challenging it will be for you to live by the code of conduct.
- Use simple, clear language that you will remember and that others will understand.

Challenge 2-C: Credit Code of Behavior

NAME:

DATE:

Required Criteria		Status
Content		
1.	State at least two standards of conduct (rules for how you will behave) when borrowing money and managing credit use.	acceptable not acceptable
2.	State at least two standards of practice (procedures that you will follow) when borrowing money and managing credit use.	acceptable not acceptable
3.	Code of Conduct standards are realistic based on the known circumstances, stated criteria, and potential to achieve the desired outcome.	acceptable not acceptable
4.	You state how your Code of Conduct supports your own values and personal financial goals.	acceptable not acceptable
5.	You state the potential ways that you will benefit financially by adhering to your Code of Conduct in the long-term.	acceptable not acceptable
General		
6.	Standards and action strategies are appropriate according to the borrowing guidelines reviewed during learning sessions.	acceptable not acceptable
7.	Code of Conduct is presented in complete sentences.	acceptable not acceptable
8.	Content is clearly presented in a logical manner according to your instructor's standards.	acceptable not acceptable
9.	Documentation is neat and easy to read.	acceptable not acceptable

Feedback:

Score: _____ / _____