



HIGH SCHOOL | UNIT 6

Understanding Credit

Title

When to Use or Not Use Credit

LEARNING OBJECTIVES

Students will:

- **compare** perspectives on the use of credit.
- **formulate** opinions about their future use of credit.

Topic

Understanding Credit

Overview

Should people use credit? The activity begins with students considering a variety of issues and concluding that some topics may not have a clear right or wrong answer. Students then work in small groups to conduct research in order to assume a specific role in a group discussion. Through a role-playing discussion, students answer questions about the use of credit from the perspectives of their assigned roles. The activity concludes with students forming their own opinions about debt and the use of credit.

Financial Literacy Theme

Deciding to use credit

21st-Century Skills

Critical Thinking, Collaboration, Communication

Key Terms

Credit, debt, loans, mortgages, credit cards, student loans

Connect

How does this connect to the student?

Decisions about whether or not to use credit, when, and how much are encountered by everyone as they get older. One of the first decisions some students will come across is whether or not to use student loans to finance higher education and—if so—how much to borrow.

How does this connect to careers?

Credit Counselor: People with debt often need the help of a professional. Credit counselors assist people with developing strategies to pay down their debt and create a workable budget to manage their spending in the future.

How does this connect to technology?

When people take on more debt than they can afford to repay it can have consequences that extend beyond their own personal lives. The financial crisis of 2008 is one example in which mortgage debt was a key factor in a major financial recession.

Prepare

Background: People hold a variety of opinions about the use of credit. When it comes to credit cards, for example, some people think they should be avoided altogether to avoid overspending. Others believe that responsible use—not spending more than you can afford and paying it off when the bill comes due—can help to build a credit history and/or improve a person’s credit score. Still others recommend charging as much as possible to maximize the accumulation of points or receive cash back on purchases.

In this activity, students will take on different personalities or roles for a group discussion. Some personalities are specific people who offer advice through books they have written, blogs, radio shows, and other forms of media. Others are more general roles such as that of a credit counselor or representative of the Consumer Financial Protection Bureau. While the activity is unlikely to generate heated debate, [The Choices Program from Brown University](#) offers resources to help educators prepare students to engage in meaningful discussions about potentially controversial topics.

In advance of using this activity, review the details, and determine two things: which roles you will use and how you will facilitate the discussions. Roles should be selected based on a number of factors, including the number of students in your class, how many groups you wish to have, and the discussion method you select. You may randomly assign students to roles or determine their roles in advance. If assigning roles in advance, the information in the **Debt Dilemmas Facilitation Guide** may be helpful in selecting the best role for each group of students.

Based on the dynamics and setup of your classroom, determine the best method for facilitating this activity in advance. Two methods are recommended: jigsaw or fishbowl.

- **Jigsaw:** Assign students to discussion groups with each member role-playing a different persona. In this method, many small discussions will be happening simultaneously. If one group ends early, let them go around the room and listen to what other groups are saying.
- **Fishbowl:** Make a circle of chairs in the center of the room with each chair designated for one of the roles. Invite one person with each role to join the inner circle (the “fishbowl”). The rest of the class watches the conversation. At certain moments, you can announce “Switch,” meaning that a student in the fishbowl is replaced by another student with the same role. Alternately, students may tap the shoulder of someone with the same role when they want a turn to participate in the discussion.

Materials

- **Discussion Roles Student Handout**—one role per student (multiple students will have the same role)
- **Debt Dilemmas Student Capture Sheet**—one copy per student
- **Debt Dilemmas Facilitation Guide**—one reference copy
- **Internet access for each group of students**

Engage

- Let students know that you are going to read a series of statements. Direct them to stand and move to one side of the room if they agree with the statement and the other side if they disagree. If you wish, students may choose a third option indicating they are undecided or unsure.
- Select several of the statements below to read aloud. After each one, allow time for students to move, then ask several students to share why they chose their positions.
 - Eating sweets like ice cream and cookies can be part of a healthy diet.
 - Using animals for medical research should be stopped.
 - Curfews keep teens out of trouble.
 - Cloning is a valuable scientific pursuit.
 - Professional athletes are paid too much money.
 - Children should not have a cell phone until they are 16 years old.
- Ask students what each of the statements that you read have in common. Lead a short discussion about controversial subjects—ones about which there are often a variety of opinions. Challenge students to consider whether these topics have a clear right or wrong answer.

Teach

- Share with students that the use of credit is one of the more controversial topics in the field of personal finance. Some individuals have very strong feelings about its use.
- Let students know that they will be working in small groups to prepare for a group discussion about credit and debt. Each person will be assigned a role or personality for the conversation.
- Explain the method you have chosen for the group discussion (jigsaw or fishbowl as described above). Inform students that you will give them a list of the questions to be discussed so they can take time to consider how the person they will be role-playing would respond.
- Distribute a role from the **Discussion Role Student Handout** to each student along with a copy of the **Debt Dilemmas Student Capture Sheet**.
- Direct students to find other people with the same role and form small groups.
- Give students time to review their role and conduct some brief background research to prepare for the discussions. Students with specific identities may wish to watch a selection of videos featuring the individual to get an idea of the person's style of communication.
- Remind students that they should be answering the questions at the top of the **Debt Dilemmas Student Capture Sheet** as if they were the person whose role they are playing—not from their own personal standpoint.

- Circulate amongst the groups as students do their research. Let them know that it may not be easy to conclusively determine how their assigned persona would answer a specific question. In these cases, students should determine how they think the person might answer and be prepared to defend it with a logical argument. If needed, use the **Debt Dilemmas Facilitation Guide** for background information.
- Invite students to participate in a group discussion using the method you preselected. In each method, direct students to begin by introducing their assigned role.
 - Jigsaw: Direct students to gather in new groups so that each group has people with different roles. Let the groups determine who will be responsible for posing the questions and leading the discussion.
 - Fishbowl: Arrange chairs or desks to form a circle (the fishbowl) and invite students with various roles to take a seat. If desired, label each chair or desk with the role being played. You may choose to join the students in the inner circle to pose questions and serve as a facilitator or let the students self-moderate.
- Allow students time to reflect on the discussions and consider their own personal opinions. Direct students to complete the borrow portion of the **Debt Dilemmas Student Capture Sheet** from their own personal point of view.
- If time allows, challenge students to consider what might happen when people with very different approaches to credit and debt are in a relationship. Can people with different attitudes find common ground? How?
- Remind students that they began the activity by considering controversial topics and whether or not such topics have clear right or wrong answers. Challenge students to continue considering their personal attitudes toward debt and the use of credit. Encourage them to consider that financial “experts” may have viewpoints on these matters that may—or may not—align with their own.

Extend

- **Research:** Invite students to delve into the backgrounds of the individuals highlighted in the activity. What, if any, education or training does each have related to personal finance? How have their life experiences influenced their opinions about financial topics?
- **Discussion:** Engage students in a discussion regarding the point of view each person presented and what may influence what they say about credit and other financial topics. Encourage students to consider the role book sales, advertising, or partnerships might play in the information provided by various financial “experts.” Ask students how understanding the motivation of a source can help them better understand their point of view.
- **Writing:** Challenge students to write a persuasive letter or editorial on the topic of credit use. Require students to develop a thesis statement and defend their positions with relevant facts.
- **Family:** Share the [Helping Children Build Credit: What You Can Do](#) family connection with students and/or their parents or guardians. Encourage families to discuss credit and consider the recommended action steps.

Standards Correlation

[National Standards for Personal Financial Education](#) from the Council for Economic Education and Jump\$tart Coalition for Personal Financial Literacy

- I. Earning Income 12-3 People vary in their opportunity and willingness to incur the present costs of additional training and education in exchange for future benefits, such as earning potential.
- II. Spending 4-4 Purchasing decisions have costs and benefits that can be different for different people.
- II. Spending 8-4 Consumers weigh the costs and benefits of different payment methods to determine the best option for purchasing goods and services.
- V. Managing Credit 8-4 Credit cards typically charge higher interest rates on balances due compared with rates on other types of loans.
- V. Managing Credit 8-6 When people borrow money to invest in higher education or housing, the risks and costs may be outweighed by the future benefits.
- V. Managing Credit 8-7 Borrowing increases debt and can negatively affect a person's finances.
- V. Managing Credit 12-7 Lenders assess credit-worthiness of potential borrowers by consulting credit reports compiled by credit bureaus.
- V. Managing Credit 12-9 Credit reports and credit scores may be requested and used by entities other than lenders.

[National Standards for Business Education](#) from the National Business Education Association

- Personal Finance I.1.3 Apply opportunity costs and trade-offs to personal decisions.
- Personal Finance VII.1.2 Describe the risks and responsibilities associated with using credit.
- Personal Finance VII.1.3 Identify the opportunity cost of credit decisions.
- Personal Finance VII.1.5 Determine advantages and disadvantages of using credit.
- Personal Finance VII.1.9 Analyze credit card features and their impact on personal financial planning.

Discussion Roles

Directions: Cut apart so each student receives one role along with its overview and link to learn more.

Role	Consumer Financial Protection Bureau Representative
Overview	The Consumer Financial Protection Bureau of CFPB is a government agency created to provide a single point of accountability for enforcing federal consumer financial laws and protecting consumers in the financial marketplace. CFPB provides information on financial topics, including various types of debt. The bureau also enforces laws and conducts research to help consumers.
Learn More	www.consumerfinance.gov

Role	Credit Counselor
Overview	Credit counselors typically work for a non-profit agency whose goal is to help people gain control over their finances. They act as financial advocates who help consumers conduct a financial review, establish a budget, and develop a personalized financial action plan. They are also trained to help people with serious debt problems.
Learn More	www.nfcc.org or the website of a local, non-profit credit counseling agency

Role	Brian Kelly
Overview	Brian Kelly is known as “The Points Guy.” He started a blog in 2010 to share his experiences and opinions on how credit cards can be used to accumulate points or miles for travel. His company focuses on helping people find and use credit cards that will help them pay for travel and other expenses through their use. A section of his website includes information about his sponsors and notes that “compensation may impact how and where products appear on this site (including, for example, the order in which they appear). This site does not include all credit card companies or all available credit card offers.”
Learn More	https://thepointsguy.com/

Role	Erin Lowry
Overview	Erin Lowry is—among other things—the author of the <i>Broke Millennial</i> book series. Her financial advice is aimed at younger individuals who are just getting started in the world of work. She believes credit cards can be used to build a credit score by not using more than 30% of your available credit and paying them off each month. She considers student loans, home loans (mortgages), and loans to start a small business to be “good debt” because each has the potential for return (i.e., more earnings from a college degree, selling the house for more money in the future, or making money from the business).
Learn More	https://brokemillennial.com/ or 3-Minute Guide video series with The Financial Diet

Role	Dave Ramsey
Overview	Dave Ramsey is an author and radio host who believes people should avoid the use of debt (especially credit cards). The only exception is the use of a mortgage to purchase a home. He advises individuals with debt to pay it off as quickly as possible using a method referred to as the “debt snowball.” Mr. Ramsey teaches people to ignore their credit scores and suggests that people can purchase a home without a credit history.
Learn More	www.daveramsey.com

Role	Vicki Robin
Overview	Vicki Robin co-authored the book <i>Your Money or Your Life</i> which eventually helped lead to the FIRE Movement (FIRE stands for Financial Independence Retire Early). The basic idea behind the FIRE Movement is that people live on as little income as they can and invest the rest so they can retire at an early age.
Learn More	https://vickirobin.com/ or https://playingwithfire.co/

Your Role: _____

Prepare for the group discussion by answering the following questions from **the perspective of your assigned role**.

1. Are some forms of debt better than others?
 2. What are some of the benefits of using credit?
 3. How should credit cards be used?
 4. Is it okay to borrow money for college? If so, how much?
 5. What should people do if they have debt?
 6. Should people borrow money to pay for a vehicle?
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After the group discussion, answer the reflection questions below from **your own personal point of view**.

7. Are some forms of debt better than others?
8. What are some of the benefits of using credit?
9. How should credit cards be used?
10. Is it okay to borrow money for college? If so, how much?
11. What should people do if they have debt?
12. Should people borrow money to pay for a vehicle?

The sample answers below are reflective of how students playing each role might answer the questions. Actual answers will vary.

CFPB Representative

A representative of the Consumer Financial Protection Bureau or CFPB is likely to speak about comparing loan offers and making sure a person understands the terms of any credit or debt they take on. They are unlikely to take a specific stand on an issue unless there is a clear policy related to it. Students with strong research skills should be able to locate specific positions on topics such as those linked below.

1. **Are some forms of debt better than others?** There are different types of credit and ways they can be used. People should understand the terms and conditions of any loan they get or credit they use. For example, before taking out a payday loan, [know the interest rate you are being charged](#).
2. **What are some of the benefits of using credit?** One benefit of using credit is building a [strong credit report](#). I can send [you information](#) on building or improving your credit.
3. **How should credit cards be used?** There is a lot to know about credit cards. People should understand things like [APR and credit limits](#).
4. **Is it okay to borrow money for college? If so, how much?** [Student loans](#) can help people obtain a college education, but students should not borrow more than they can afford to repay when they graduate.
5. **What should people do if they have debt?** If a debt collector contacts you, you should [know your rights](#). There are also many helpful [credit counseling agencies](#) that can help.
6. **Should people borrow money to pay for a vehicle?** When you're shopping for a [new auto loan](#), it's important to know the right questions to ask. Preparing can help you save money, reduce stress, and get the auto loan that's right for you.

Credit Counselor

Credit counselors work with individuals and families each day to help them get a handle on their debt. Some help is reactive—helping people dig their way out of debt—while other help is proactive, such as helping people create and stick to a budget. Specific answers to the questions below will be harder to find than for some of the other roles. Students will need to consider how a person in this role might respond and make inferences.

1. **Are some forms of debt better than others?** Some forms of credit may encourage you to spend more, but other forms of debt can help you. If you need a car to get to work, then you may need an auto loan, for example..
2. **What are some of the benefits of using credit?** If you can use it responsibly, you can build a good credit report and a strong credit score. These can help you get loans in the future and pay less in interest when you do.
3. **How should credit cards be used?** Credit cards can be used in different ways. You might use them to help you keep track of your expenses and then pay the bill off when it comes. If you have to carry a balance, pay it off as quickly as possible and know how much you are paying in interest.
4. **Is it okay to borrow money for college? If so, how much?** If your lifelong dream is to be a teacher, then you will need to go to college. You may need to borrow for your education, but you should only borrow as much as you absolutely need.
5. **What should people do if they have debt?** There are different ways to handle debt. Some people can deal with it on their own. Others need help. Credit counselors can help people figure out a plan. We can also set people up on a [debt management plan](#) or counsel them if they are considering filing for bankruptcy.
6. **Should people borrow money to pay for a vehicle?** You might need a car to get to work. If so, then you might need an auto loan. Be sure to budget for the payments and make sure you can afford it. You do not want to have debt you cannot afford to repay.

Brian Kelly

Students with this role will need to focus on Mr. Kelly's emphasis on using credit cards to accumulate points or get cash back. This may be a good role for students who like to act or are good with improvising as there are fewer concrete answers available for these questions.

1. **Are some forms of debt better than others?** I'm known as [The Points Guy](#) because I think it is smart to use your credit cards to help you out. So, I think using credit cards is good debt.
2. **What are some of the benefits of using credit?** If you use the right credit cards in the right situations, you can earn points or miles you can use for travel. You might also be able to get cash back on your purchases. Different cards have different perks. Our [website](#) helps you find those, but be sure to read about our advertising policies. We don't list every credit card company.
3. **How should credit cards be used?** Credit cards should be used to benefit you! [Why use a debit card or cash when you can charge a purchase and get points?](#) Just make sure you can [pay it off later](#).
4. **Is it okay to borrow money for college? If so, how much?** I don't really get into student loans. But if a person goes to college, why wouldn't they use a credit card to earn points on things they are going to buy anyways like books? Just [be responsible in how you use it](#).
5. **What should people do if they have debt?** While we're always here to tell you which credit card—or cards—to get, we've also said this time and time again: [Don't get a credit card if you cannot afford to pay your bills, on time, in full, every single month](#). A credit card is not a magical piece of plastic (or metal) that gives you unlimited funds or monopoly money (as much as we wish that were true). It is a savvy way to rack up points and miles for travel, but you should never get a credit card and buy things that you normally would not have, just for the sake of "getting the points."
6. **Should people borrow money to pay for a vehicle?** [Again—not our area. But we do track the best credit cards people can use for buying gas!](#)

Erin Lowry

Students can find answers to most of these questions by watching some of Erin Lowry's [3-Minute Guide videos on YouTube](#) or reviewing posts on her [blog](#).

1. **Are some forms of debt better than others?** Yes. I have a [short video](#) on how to tell the difference. Student loans, mortgages, and loans for a small business can all be good forms of debt. Each of these can benefit you in the long run because they have the potential for return.
2. **What are some of the benefits of using credit?** "[I've owned nine credit cards in my life and never carried debt.](#)" Here are some reasons I like using a credit card. They can give you more protection when shopping online. Some cards also have rewards or bonuses or offer cash back.
3. **How should credit cards be used?** In [my video on using credit cards](#), I explain that you should use credit cards for regular purchases that you can afford to pay back. If you do this you get the benefits they provide without the risk of too much debt. However, if you know you tend to overspend, you may want to avoid using them. Also, be sure to understand any annual fees and that you are getting enough out of the card to justify using it.
4. **Is it okay to borrow money for college? If so, how much?** I believe you can go to school and not have debt. If you must get student loans, I have a [few suggestions](#): "Take out the bare minimum you need. Keep applying for scholarships. Start making payments A.S.A.P. Look for discount options. (Find out) Can you return any?"
5. **What should people do if they have debt?** I have a 3-Minute Guide video on YouTube called, [The Two Easiest Ways to Pay Down Your Debt](#) where I explain two methods for paying down debt. One is called the debt snowball where you pay off your smallest debt first—the one where you owe the least money. The other is the debt avalanche approach where you pay off the loan with the highest interest rate first.
6. **Should people borrow money to pay for a vehicle?** Sure, but follow [my advice](#). First, get pre-approved so you can get the best rate and know what you can afford before you set foot on a car dealer's lot. It can also give you leverage when you are negotiating.

Dave Ramsey

Dave Ramsey has very strong opinions about debt and does not try to hide them. He addresses them head-on and refers to taking on debt as “dumb” or paying the “stupid tax.” Students should be able to find answers to each of the questions on his website.

1. **Are some forms of debt better than others?** “[Debt](#) comes in many shapes and sizes. But no matter what form it takes, debt just steals from you and your future. ...There is no such thing as good debt. That’s like saying there are good kinds of the flu.”
2. **What are some of the benefits of using credit?** The only debt I’m okay with is a mortgage to [buy a house](#). I would prefer you pay for your house with cash, but not all people can. If you get a mortgage, you should already have saved up enough for a good down payment.
3. **How should credit cards be used?** “Maybe your parents gave you one when you turned 18. Or maybe you only got one for ‘emergencies.’ Either way, someone convinced you that you needed a [credit card](#) to be successful in life. But we are here to tell you that is a straight-up lie! If you have not already figured out, we are anti-credit card around here. Why? Because credit cards are designed to build debt, not wealth. And the higher your credit card balance, the higher your stress level. Still, many people sign up for credit cards without reading the fine print first. And that’s just what those money-hungry credit card companies in their shiny towers want.”
4. **Is it okay to borrow money for college? If so, how much?** You should take on [student loan debt](#) if you know exactly what job you are going to get after college and that it will definitely pay enough so you can quickly repay your student loans. If not, student loans are dumb.
5. **What should people do if they have debt?** They should use the [debt snowball method](#). “The debt snowball method is a debt reduction strategy where you pay off debt in order of smallest to largest, gaining momentum as you knock out each balance. When the smallest debt is paid in full, you roll the money you were paying on that debt into the next smallest balance.”
6. **Should people borrow money to pay for a vehicle?** “With a little bit of hard work and a mission to live like no one else, you can [get your next car without a car payment](#)! But what can you afford? Well, if you can’t write a check or pay for a car with cash on the spot, you can’t afford it.”

Vicki Robins

As one of the people behind the FIRE (financial independence retire early) movement, Vicki Robins is best known for her attitudes on how much money a person spends and saves. Students with this role will need to be able to make inferences and take on the persona of someone who is laser-focused on spending less and saving more.

1. **Are some forms of debt better than others?** Part of being financially independent is not having debt. I believe there is happiness in being debt-free and financially independent.
2. **What are some of the benefits of using credit?** People in the FIRE Movement focus on being able to gain financial independence and retire early. Many want to travel and experience new things. Some will use credit cards—only as much as they can afford—to help pay for travel.
3. **How should credit cards be used?** Use credit to help you achieve your goals and spend less. You might be able to get cash back on purchases or points for travel. Do not use them to accumulate debt.
4. **Is it okay to borrow money for college? If so, how much?** People who borrow money for college should try to live beneath their means to pay it off quickly.
5. **What should people do if they have debt?** Pay it off. You cannot be financially independent until you are free of debt.
6. **Should people borrow money to pay for a vehicle?** You should buy the cheapest, reliable used car that you can. We have a [tool](#) that helps people compare used cars to make sure they are getting one that will work for them. I would rather drive an older car and retire early than have a car loan.